



WINNING STRATEGIES IN THE EMERGING RECOVERY

A report on mid-size companies
prepared by CFO Research Services
in collaboration with American Express



Turning the corner of recovery

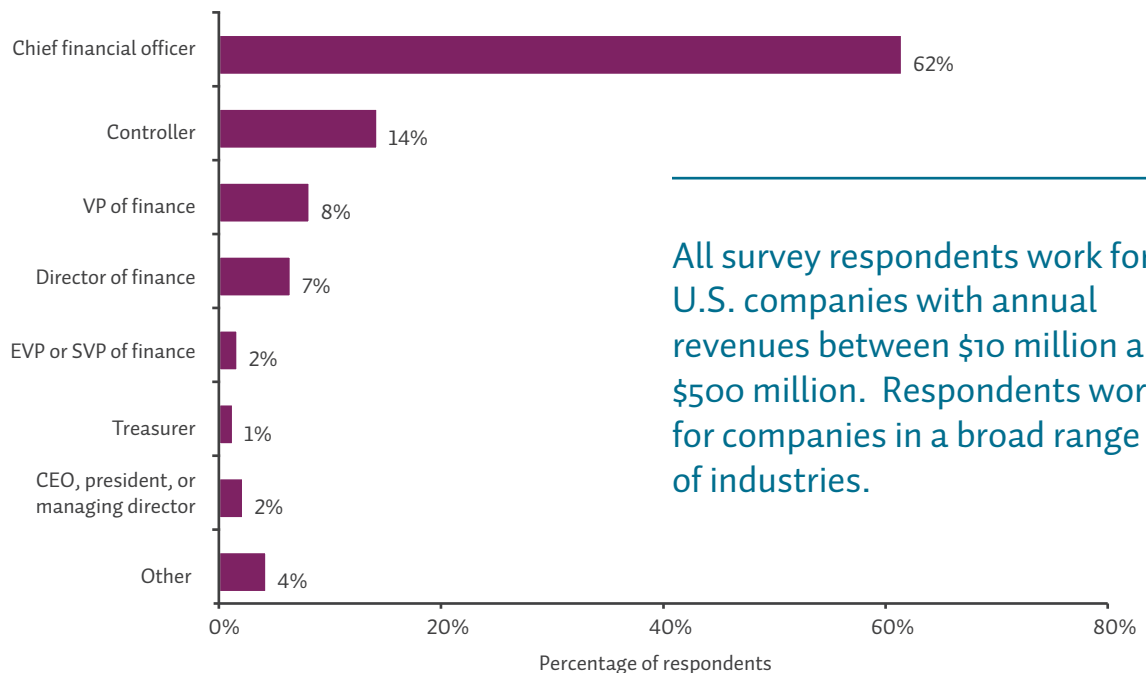
In the fall of 2009, as the first green shoots of recovery began to appear in the landscape of the most serious economic downturn in a generation, CFO Research Services conducted a research program among senior finance executives at mid-size companies to explore their responses to the recession. We published the results of that research in two reports: *Getting Focused*, *Getting Ahead* and *Getting to the New Normal*.

In those reports, finance executives showed a lively, competitive spirit as they contemplated the work ahead. In many cases, the downturn seemed to have reinforced their faith in core business values. As the CFO of a professional services firm wrote, “If your business is based on fundamentally sound principles (that is, [if] you put your customers’ needs first, deliver value, and are a good steward of the firm), and you trust and empower your employees to make decisions for the business, then you can respond positively to almost any challenge.”

Since our last study, the contours of the recovery have gradually emerged. There has been good news: key economic indicators are trending upward. Corporate profits are up. Consumer confidence is gradually returning. Capital markets are recovering. At the same time, however, lackluster job growth is slowing recovery in the housing market and, by extension, in the demand for goods and services. Conditions have improved markedly since the fall of 2009, but the business environment remains uncertain.

To learn more about finance executives’ plans, priorities, and aspirations as this challenging recovery unfolds, CFO Research Services conducted another survey among senior finance executives at mid-size companies in December 2010. What strategies will mid-size companies pursue to thrive—not just survive—in this recovery? How will the finance function and its leaders contribute to their companies’ efforts to grow and prosper? We surveyed 231 senior finance executives at mid-size companies to find out.

Figure 1. Respondent demographics



All survey respondents work for U.S. companies with annual revenues between \$10 million and \$500 million. Respondents work for companies in a broad range of industries.

“We learned that we can operate much leaner, and with virtually no loss of productive capacity,” says one CFO.



Finance executives anticipate more abundant growth opportunities

After two years or more of slashing costs, many finance chiefs at mid-size companies have a renewed appreciation for their companies' ability to 'do more with less.' "Our cost structure was much too high," wrote the CFO of a construction company in response to an open-ended question. "We learned that we can operate much leaner, and with virtually no loss of productive capacity."

Survey results show that companies plan to reap the benefits of these hard-won efficiencies in the months ahead. But we also found that companies are shifting the primary focus of their attention from cost control toward growth. Two-thirds of all respondents say their companies have become at least somewhat more focused on top-line growth since this time last year. (See Figure 2.) More than half of all respondents (54%) report that their companies primarily sought to "control costs to maintain profitability" over the past two years.

Figure 2. Mid-size companies are turning their attention to top-line growth.

Since this time last year, my company has become...

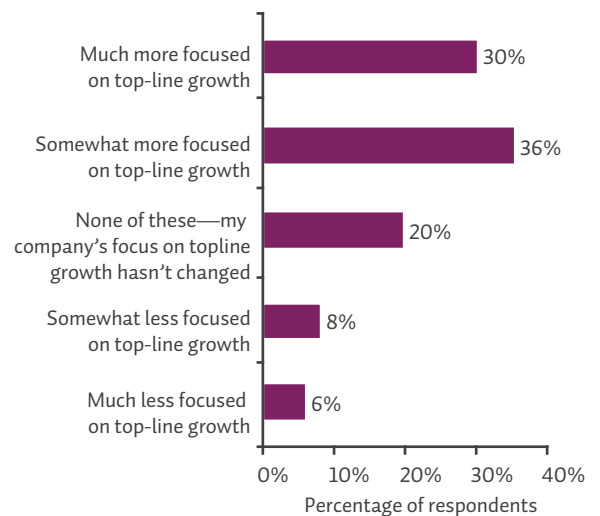
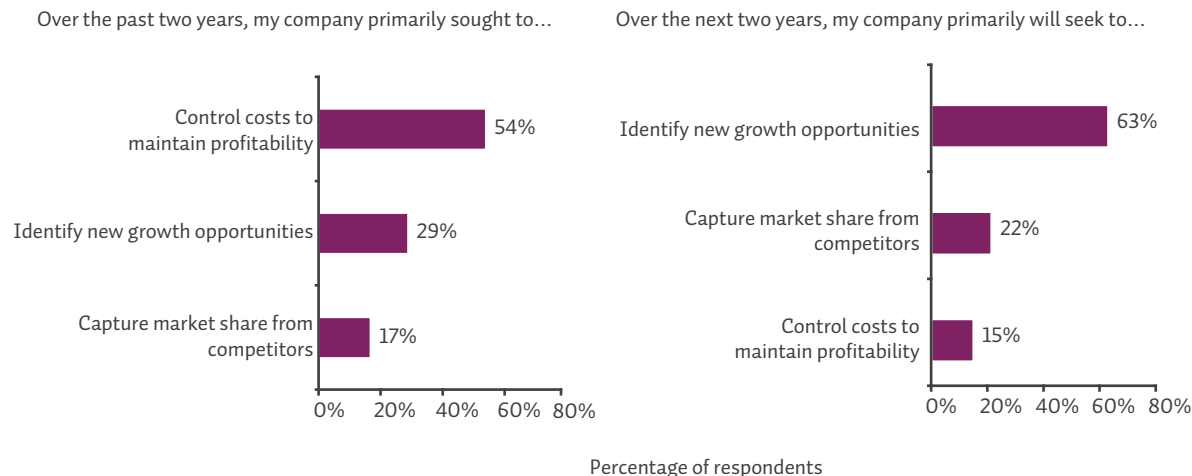


Figure 3. As companies shift their focus from cost control to growth, identifying new growth opportunities—as opposed to capturing share in current markets—is emerging as the dominant growth strategy.



But only 15% of respondents expect their companies will focus primarily on controlling costs over the next two years. (See Figure 3.)

Furthermore, finance executives anticipate that new opportunities to grow will become more abundant over the next two years (as opposed to remaining static or receding). A majority of respondents (63%) expect their companies will focus primarily on identifying new growth opportunities in the next two years. Relatively few respondents (22%), however, describe their primary business strategy as capturing market share from competitors.

While many finance executives anticipate an expanding pool of new opportunities, survey results also suggest that they believe their current products and services offer the most promising path to growth. For example, respondents most frequently identify increasing sales to new customers in existing product lines (41%) as their most important opportunity to increase revenues over the next two years. (See Figure 4, next page.)

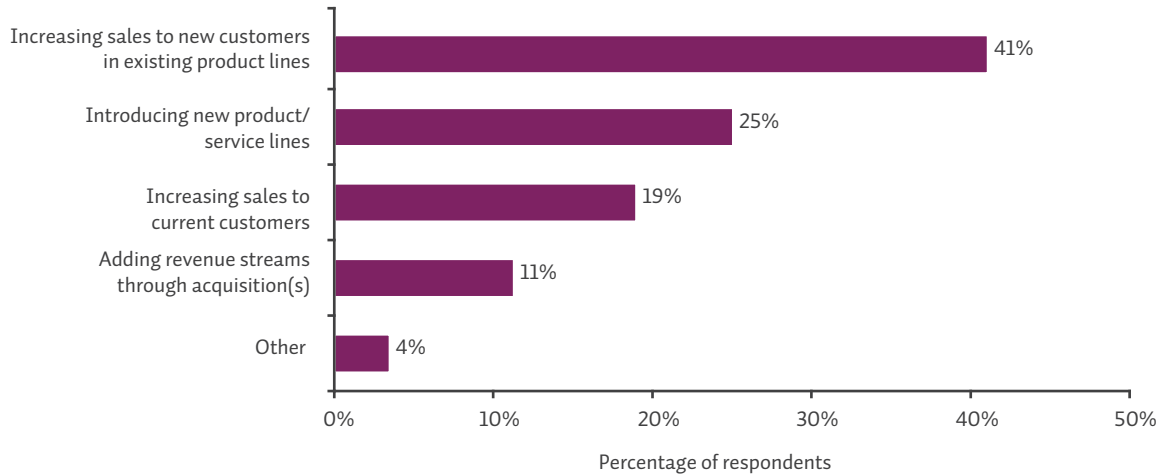
International expansion may figure prominently in at least some of these plans to expand market share. While 55% of respondents say that international expansion (including sourcing, production, sales, or distribution abroad) will *not* be important to their companies' ability to thrive in the coming recovery, nearly one-quarter of all respondents (23%) say they expect international expansion to be very important to their companies over the course of the recovery.

Senior finance executives indicate that increasing sales to new customers in existing product lines, international expansion, and innovation are critical components of their growth plans.

Notably, one-quarter of respondents see innovation (i.e., introducing new product or service lines) as their companies' most important growth opportunity over the next two years. Fewer respondents (19%), however, see increasing market penetration (i.e., increasing sales to existing customers) as their companies' most important opportunity—and even fewer see adding revenue streams through acquisition (11%) as their most viable avenue to growth. Conditions appear to be ripe for an M&A boom in the broader economy. Many large companies are hoarding impressive amounts of cash, and there is an abundance of appealing targets. These survey results suggest, however, that many mid-size companies are more likely to be acquisition targets than acquirers in the current environment.

Figure 4. Finance executives identify expanding market share as their most important opportunity to increase revenues over the next two years.

Which of the following items represent your company's most important opportunity to increase revenues over the next two years?



Finance executives on the most promising pathways to growth

“Expansion of customer base”

“Obtaining business from strategically identified new customers in a globally competitive environment”

“Getting new products to market in 2011”

“International expansion”

“Selling more to current customer base and marketing to new customers”

“Finding new customers and keeping them with good customer service”

“Becoming more efficient in how we conduct business and offering more with less”



Persistent uncertainty and fierce competition pose obstacles

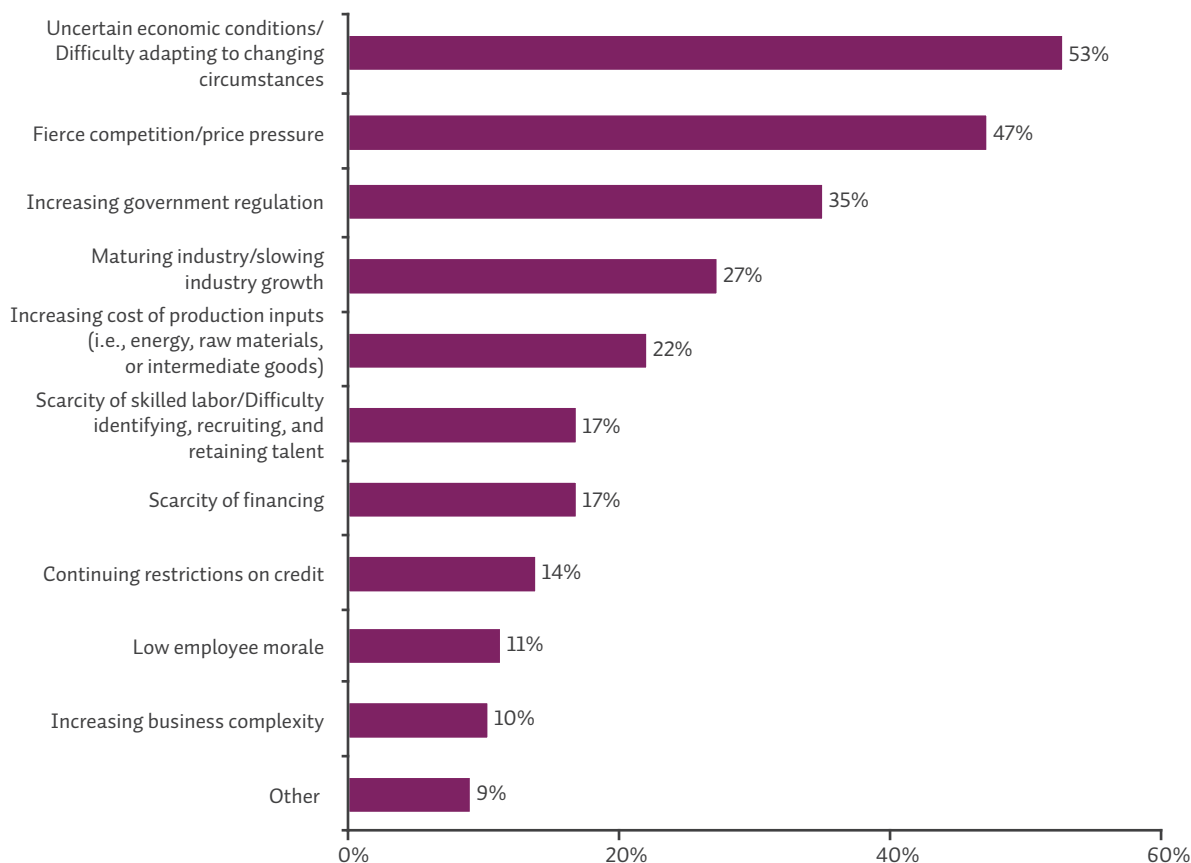
Every path to growth has its obstacles—and finance executives are keenly aware of the barriers they face in this fragile and uneven recovery. More than half of all respondents (53%) report that uncertain economic conditions, along with difficulty adapting to changing circumstances, are likely to pose barriers to their companies’ growth plans in the course of the recovery. Nearly half of all respondents (47%) report that fierce competition and resulting price pressure rank among the factors most likely to create obstacles to growth. (See Figure 5.)

Respondents rank uncertain economic conditions, fierce competition, and price pressure as the top barriers to growth.

But even as they consider these obstacles, survey respondents seem confident that their companies are well positioned to succeed in the recovery. Forty-eight percent of respondents report that their companies are “fairly well positioned” to succeed in the coming recovery, compared to their competitors. Another 44% of respondents report that they are “very well positioned” to succeed in the coming recovery versus their competitors.

Figure 5. Economic uncertainty and fierce competition rank among the most formidable obstacles to growth.

Which of the following items are most likely to pose barriers to your company’s growth plans in the course of this recovery?



Percentage of respondents
Note: Respondents were asked to choose up to three.

Two-thirds of survey respondents say they believe financial conservatism is likely to contribute to—not detract from—competitive advantage over the course of this recovery.



Competencies built in the downturn form the basis for sustained, profitable growth

Where are finance executives drawing this sense of confidence? In part, from the competencies their companies reinforced (or built) in the course of the recession. We found that finance executives expect the capabilities, relationships, and disciplines that served them well in the downturn to provide a platform for future growth.

Finance executives clearly recognize the contribution of financial discipline—maintaining a strong balance sheet, a lean cost structure, low working capital, and high levels of liquidity—to competitive advantage. More than three-quarters of all respondents (78%) confirm that their companies are more financially conservative as a result of the recent downturn. (See Figure 6.)

In open-ended responses, respondents acknowledge that a financially conservative posture may lead to missed opportunities. But two-thirds of survey respondents say they believe financial conservatism is likely to contribute to—not detract from—competitive advantage over the course of this recovery. (See Figure 7.)

Figure 6. Finance executives confirm that they're more committed to financial conservatism as a result of the downturn.

Is your company more financially conservative (i.e., more committed to maintaining a strong balance sheet, a lean cost structure, low working capital, and high levels of liquidity) as a result of the recent economic downturn?

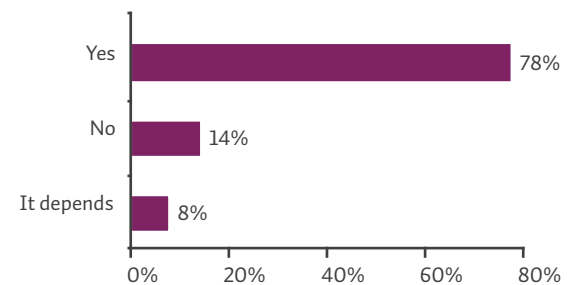
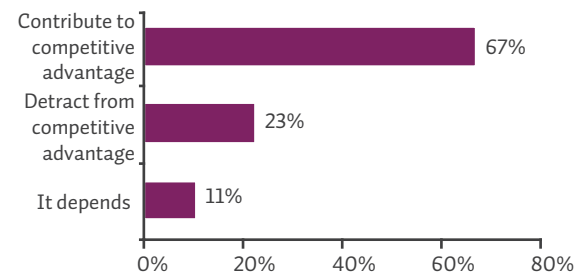


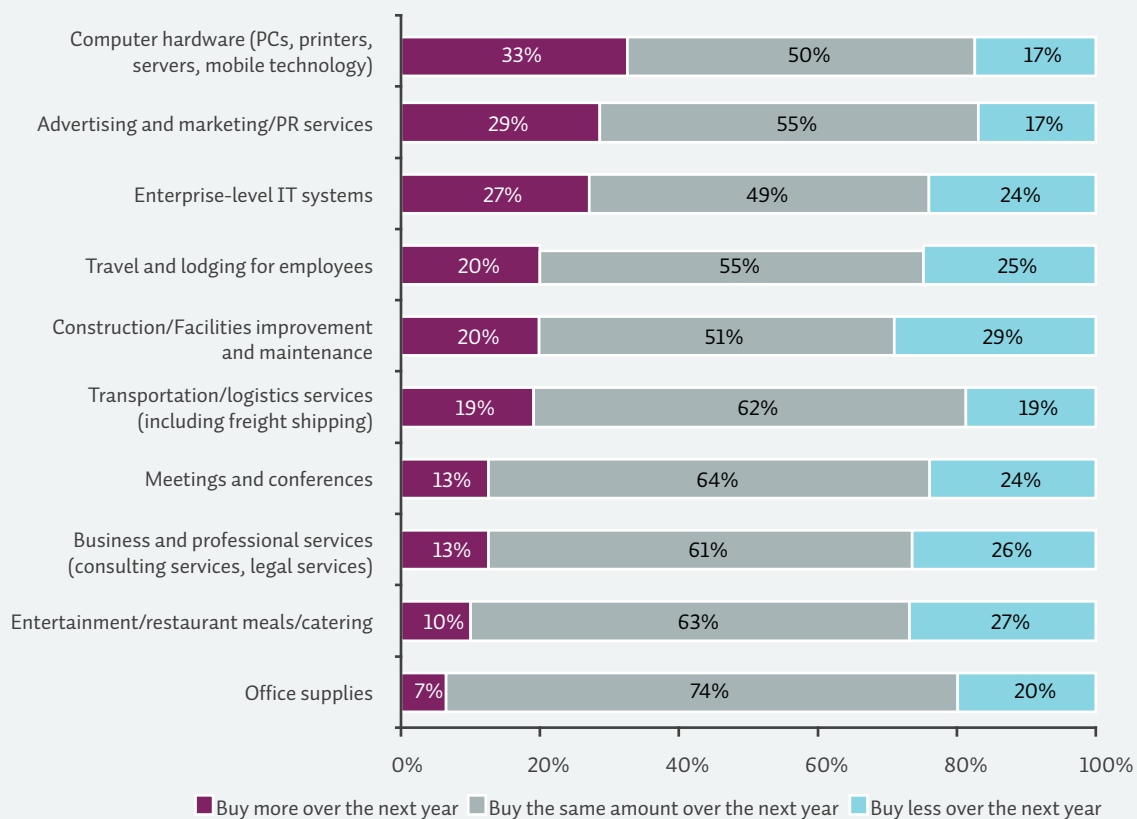
Figure 7. Finance executives believe financially conservative behavior will contribute to their companies' competitive edge over the course of the recovery.

In my company's business sector, financial conservatism is likely to _____ over the course of this recovery.



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

Figure A. Compared to the past year, is your company likely to buy more, the same amount, or less in each of the following categories over the next year, in order to support its growth objectives?



Loosening purse strings

Given finance executives' ongoing commitment to financial discipline—including cost discipline—it's unsurprising that survey results suggest that spending is likely to remain stable across most spending categories. Mid-size companies are most likely to loosen their purse strings for items that boost productivity and support sales: computer hardware, enterprise IT systems, and advertising, marketing, and PR. (See Figure A, above.)

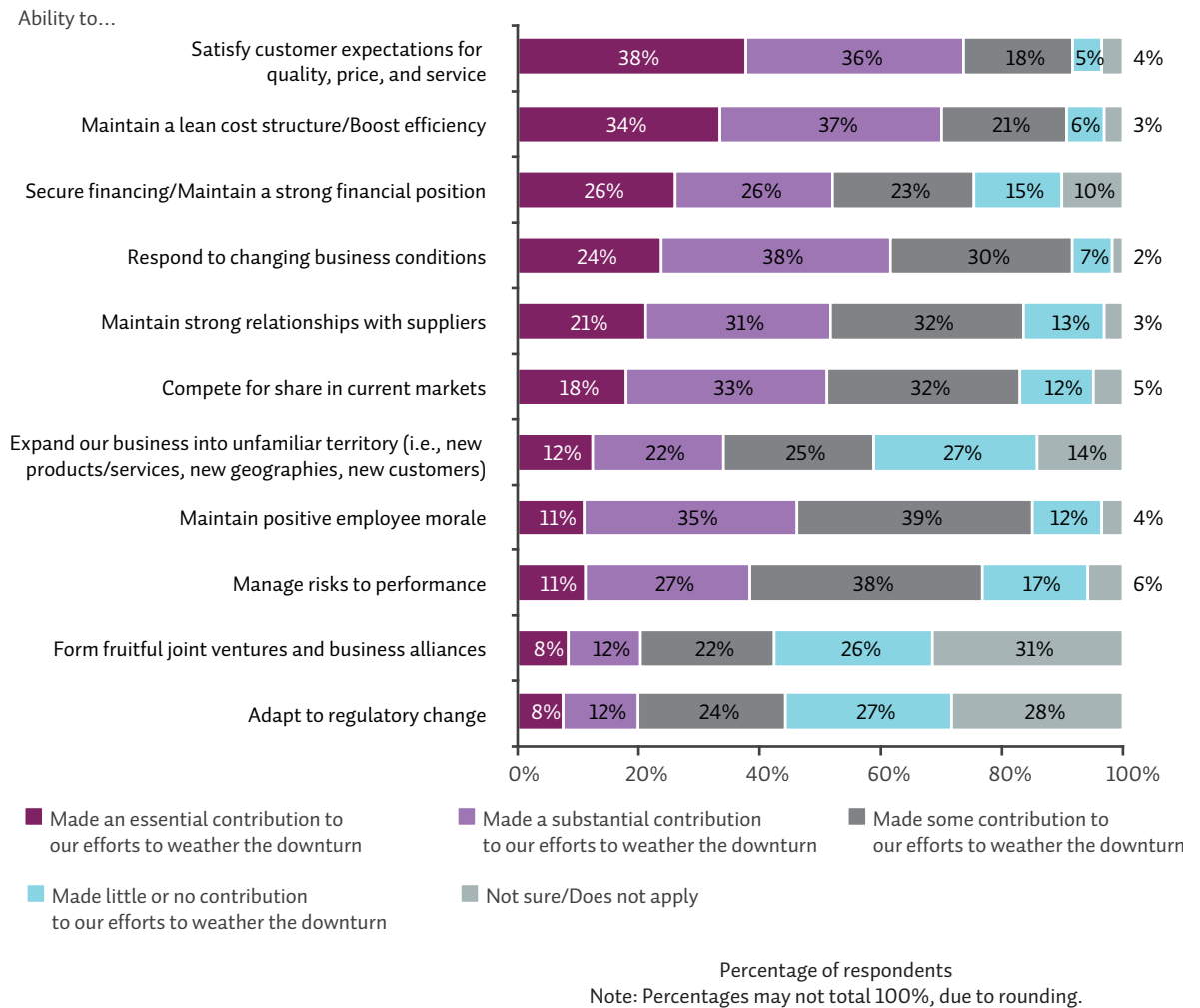
While half of all respondents say they plan to buy the same amount of computer hardware next year, one-third of respondents say they plan to buy *more* computer hardware over the next year. Fewer respondents (17%) say they plan to buy less computer hardware over the next year.

Similarly, 55% of all respondents say they plan to buy the same amount of advertising, marketing, and PR services over the next year. But more respondents say their companies plan to buy *more* advertising, marketing, and PR next year than report they plan to buy *less*. Twenty-nine percent of respondents say they plan to buy more advertising, marketing, and PR; only 17% say they plan to buy less.

Although only 20% of respondents say they plan to spend more on travel and lodging for employees next year, other survey responses indicate that mid-size companies will be focusing their travel resources on trips to meet current and potential customers. Sixty-three percent of respondents say their companies are likely to allow more travel to make sales calls to potential customers; 56% of respondents say they're likely to allow more travel to visit current customers. When it comes to fostering the relationships that foster loyalty, boost customer acquisition—and increase revenues—it seems that there's no substitute for meeting face-to-face.

Figure 8. Satisfying customer expectations, controlling costs, and securing funding were key competencies during the downturn.

To what extent did the following capabilities contribute to your company's efforts to weather the recent downturn successfully?



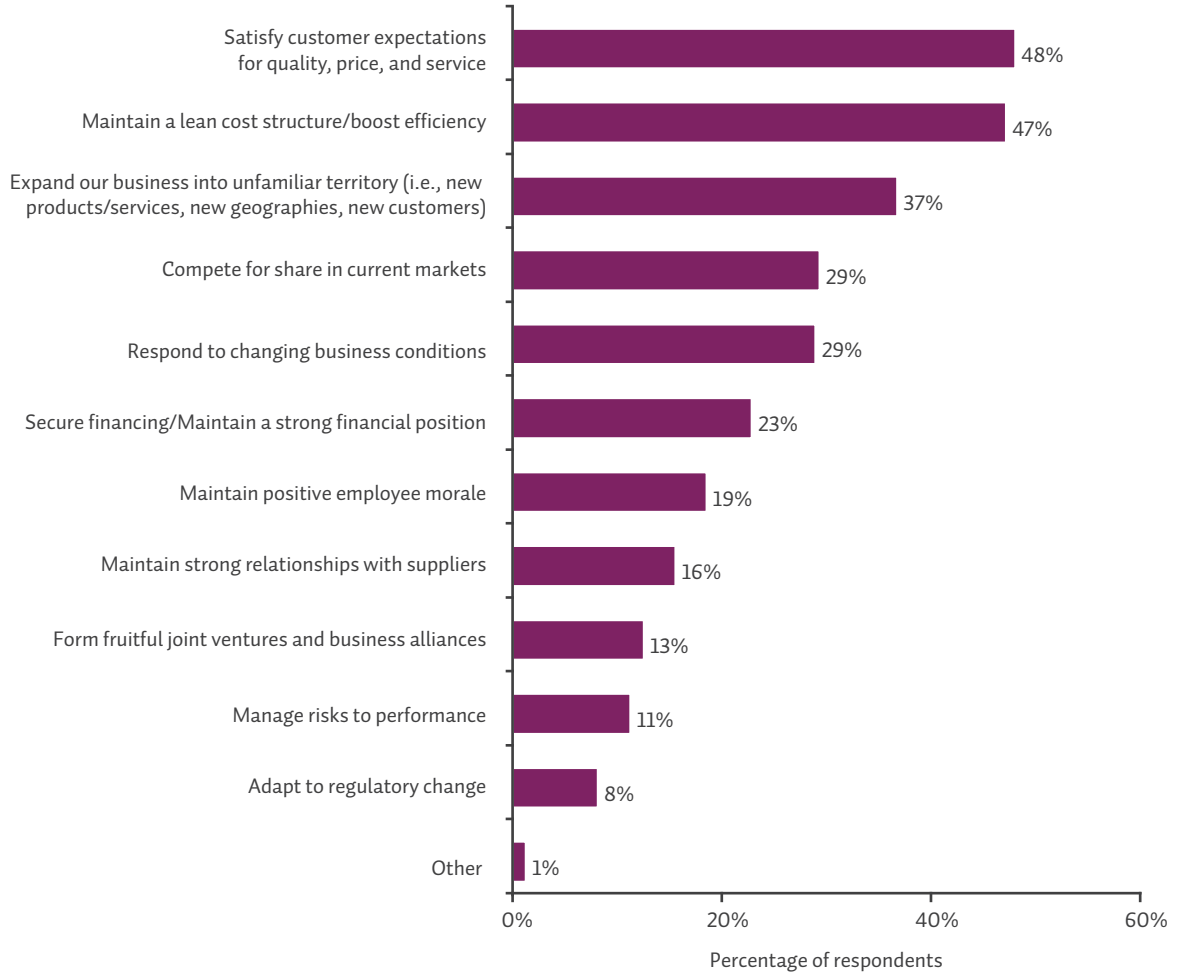
Finance executives anticipate that building on the competencies employed to survive the downturn—including a lean cost structure and improved efficiency—will contribute to their success as they pursue growth and prosperity in the course of the recovery.

Enhanced financial discipline isn't the only product of the downturn that has honed companies' competitive edge. We asked respondents to evaluate the contribution of a range of business competencies to their companies' efforts to weather the downturn successfully. In their responses, respondents most often say their companies' ability to satisfy customer expectations for quality, price, and service made an "essential" contribution to their efforts to weather the downturn (38%). (See Figure 8.) More than one-third of all respondents (34%) say that their companies' ability to maintain a lean cost structure and boost efficiency made an essential contribution to their efforts to survive the downturn, followed by 26% of respondents who cited their ability to secure financing and maintain a strong financial position.

Figure 9. Finance executives anticipate that building on some of the same competencies will contribute to their success in the course of the recovery.

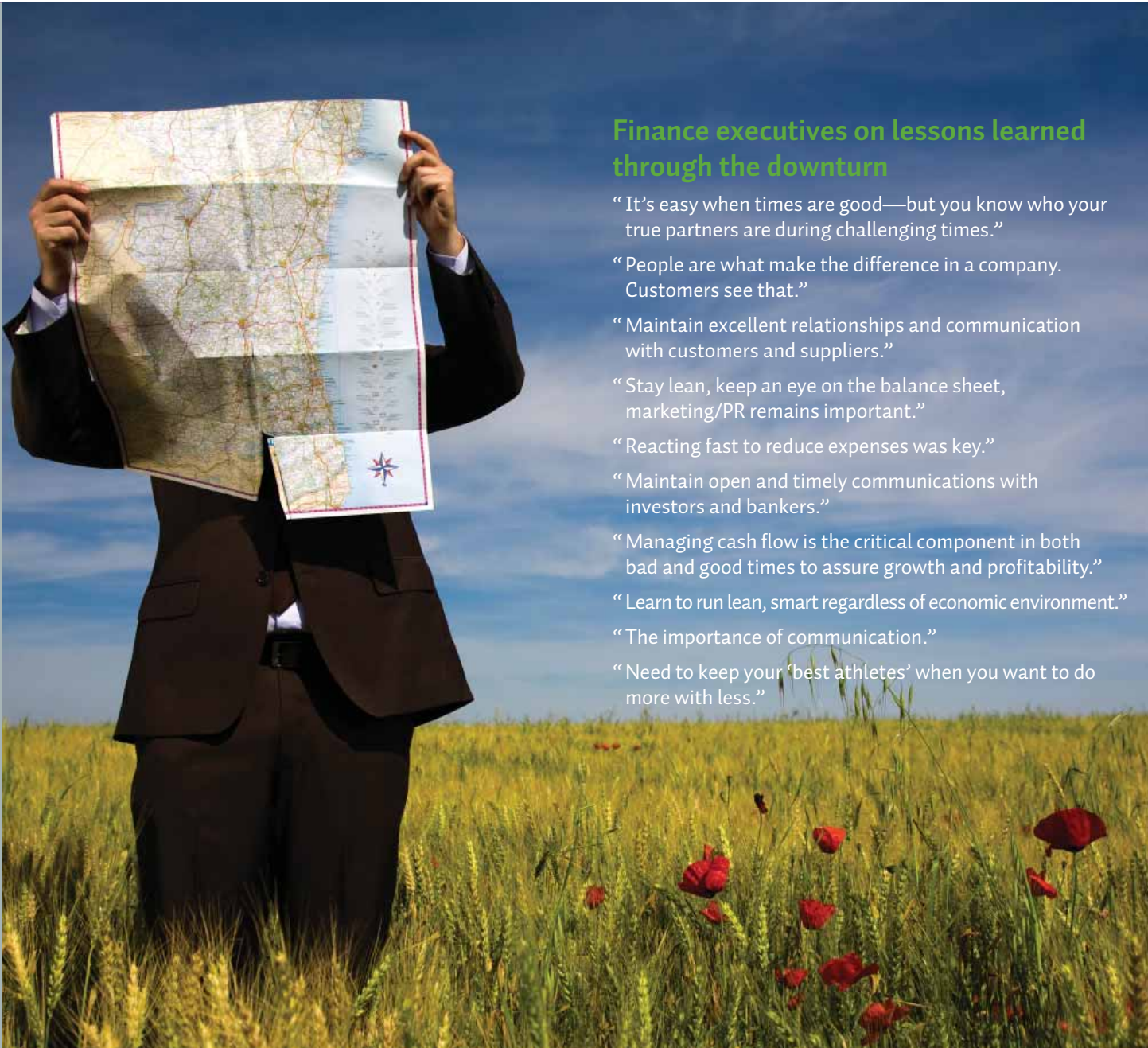
Which of the following improvements would contribute most to your company's success over the course of the recovery?

Improvement in our ability to....



Looking forward, finance executives anticipate that building on these competencies will contribute to their success as they pursue growth and prosperity in the course of the recovery. Improving the ability to satisfy customer expectations (48%) ranks among the changes most likely to contribute to their companies' success in the course of the recovery. Forty-seven percent of respondents also say that improving their ability to maintain a lean cost structure and boost efficiency is likely to contribute to their success in the course of the recovery. (See Figure 9.)

The one area where pressure to improve seems to be easing is the ability to secure financing and maintain a strong financial position. Relatively few respondents (23%) say that improving their ability to secure financing will contribute to their companies' success in the recovery. These results do not necessarily suggest that companies are abandoning financial discipline. Taken as a whole, the results of this survey indicate that many mid-size companies thoroughly integrated financial discipline through the course of the downturn and see limited room for further improvement.



Finance executives on lessons learned through the downturn

- “It’s easy when times are good—but you know who your true partners are during challenging times.”
- “People are what make the difference in a company. Customers see that.”
- “Maintain excellent relationships and communication with customers and suppliers.”
- “Stay lean, keep an eye on the balance sheet, marketing/PR remains important.”
- “Reacting fast to reduce expenses was key.”
- “Maintain open and timely communications with investors and bankers.”
- “Managing cash flow is the critical component in both bad and good times to assure growth and profitability.”
- “Learn to run lean, smart regardless of economic environment.”
- “The importance of communication.”
- “Need to keep your ‘best athletes’ when you want to do more with less.”

These results confirm that maintaining good relationships with customers, in particular, will be critical for success in a fiercely competitive, price-pressured environment. But survey respondents also frequently cite their employees as key assets in their companies’ efforts to overcome obstacles and make the most of their growth opportunities. “Our employees are the most valuable asset we have,” wrote the controller of a manufacturing company. We asked respondents to identify, in their own words, their companies’ most valuable assets in the quest to make the most of their opportunities in the recovery. More than half of all respondents who chose to answer cited, in some capacity, their companies’ employees.

The relationships forged in difficult times form the core of a winning strategy in this recovery, according to finance executives at mid-size companies. Finance executives are looking forward to drawing on the strengths that saw them through troubled times as they work toward growth—and even prosperity—in the coming recovery. The resilience of mid-size companies depends on their ability to build prosperity from those strengths in the months ahead.

Sponsor's statement

Following the recession, mid-size companies continued to closely manage their bottom lines and incorporate strong financial discipline around their expense management programs. Their efforts are paying off—corporate profits are up, the economy is recovering, and consumer confidence is on the rise. According to the American Express/CFO Research Services report *Winning Strategies in the Emerging Recovery*, companies are beginning to see the benefits of the management rigor they put into place, and are looking to grow their business while still maintaining their strong financial position.

American Express is working with tens of thousands of mid-size companies to help them pursue the growth they need to stay ahead of the competition. We are helping them manage their cash flow, streamline their payment processes, and drive savings—so they can take advantage of the opportunities that lie ahead.

Consultative approach

We tailor payment solutions based on companies' spending behaviors and expense management goals. Our dedicated account management and implementation teams work with companies to help them analyze their spending and uncover valuable insight into their data that helps them identify savings opportunities and improve control and compliance.

Depth and breadth of solutions

American Express offers an extensive depth and breadth of corporate payment solutions and services. Companies use the American Express® Corporate Card to manage employee expenses, like office supplies, shipping charges, and travel and entertainment spending. Our B2B solutions, such as the American Express® Purchasing Card, are used for larger purchases such as temporary labor. Our products help companies maximize control over business expenses and contain costs.

Greater savings and rewards

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For information about American Express corporate payment solutions, please visit www.americanexpress.com/corporate.



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