THE CFO ALLIANCE
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2015 CFO SENTIMENT STUDY

CFOs look to customers, human capital optimization & marketing to deliver top line revenue in 2015. CFOs plan to focus on collaborating with marketing to raise their understanding of their customers, making investments in the acquisition and optimization of human capital, and focus on driving top line growth through existing product lines to deliver on optimistic growth and revenue targets for 2015.

Background to CFO Sentiment Study

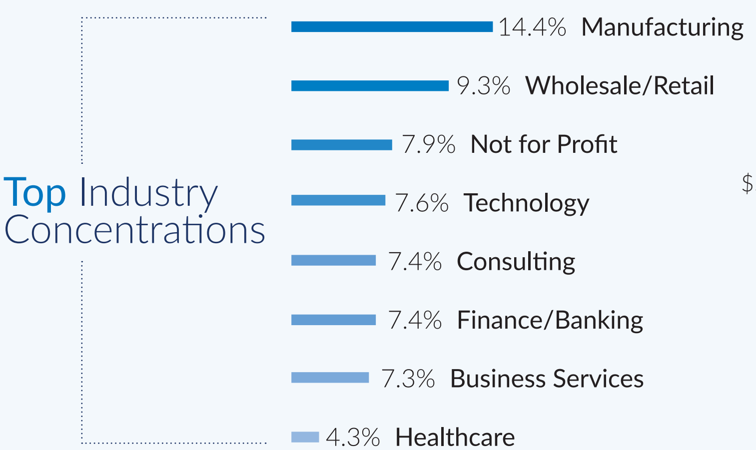
The CFO Alliance, a global community of senior financial leaders and decision makers, conducted its annual CFO Sentiment Study to provide insights into the strategic planning and financial outlook of CFOs across the country for 2015. The results of this study reflect a wide range of opinion across industry groups, company size and geography.

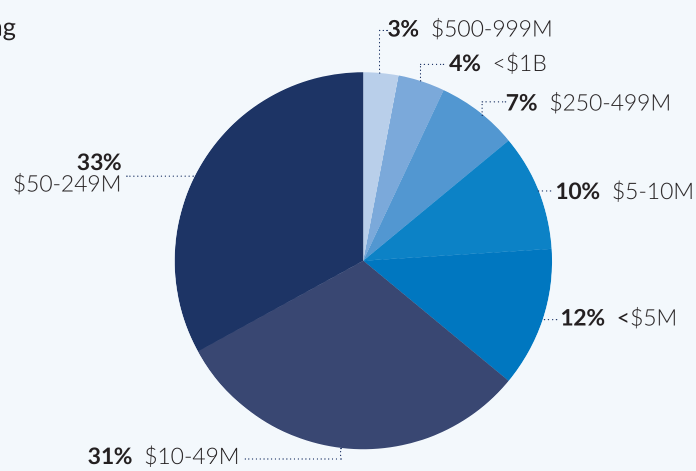
Demographic Highlights

Over 600 responses from a broad sample of senior financial executives across the United States were gathered in December of 2014 to offer an in-depth perspective on how CFOs will plan for, and respond to renewed confidence in the US economy.

Our sample is highly representative of private US companies with 451 (74.7%) of respondents coming from private industry, compared to 71 (11.8%) in publicly listed companies and 82 (13.5 %) in the not-for-profit sector.

The vast majority of our respondents represented the Middle Market (roughly 86%) as defined by the National Center for Middle Market and over half were from companies of between 10 million and 250 million in annual revenues. Manufacturing was the largest representative group in our sample (88 respondents).





Setting the Stage for 2015: Macro and Industry Level Economic Outlook

CFOs have a relatively optimistic view of the current state of the U.S. while having a pessimistic view of the global economy. CFOs have a relatively positive outlook relative to the industries of their businesses. In terms of current general macroeconomic conditions, a few key survey results are as follows:

- Over 61% characterize the current state of the U.S. Economy as strong, which is in stark contrast to CFO sentiment in December 2013 when almost 70% of 2014 CFO Sentiment Study respondents characterized the state of the US Economy going into 2014 as weak
  - Finance Leaders in the manufacturing and technology industries have the relatively most optimistic viewpoints of the current state of the U.S. economy among survey respondents
  - CFOs in the wholesale trade and financial services industries have the relatively most optimistic viewpoints of the current state of the U.S. economy among survey respondents
- Over 70% characterize the current state of the Global Economy as weak

Industry Highlights

The following results reflect the optimism of CFOs relative to the industries in which their companies operate, and the expectations of their company's financial performance in 2015:

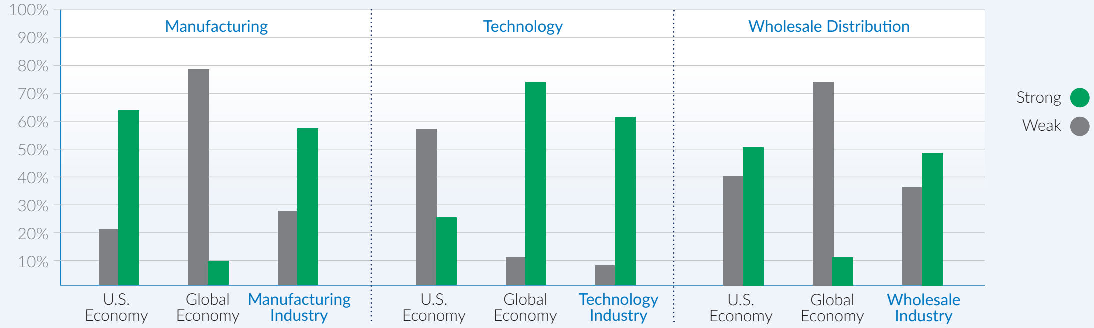
- 64% categorize the current state of the industries in which they operate as strong
  - Financial Services CFOs have an optimistic view of their industry (71% indicating strong confidence in the resilience of the financial services sector) despite their relatively macro-economic outlook for the US economy in 2015
  - Finance leaders in the manufacturing sector have a relatively more pessimistic outlook for their own industry than for the US macro-economic economy in 2015

Industry Sentiment

Sixty seven percent of the **executives** surveyed from the technology sector were also confident in domestic growth. However, executives working in wholesale trade and finance were less optimistic with 54.9% and 52.6% respectively showing confidence in state of the US economy.

For **wholesalers**, these sentiments are mirrored in their views around the health of their specific sectors, with only 43.1% showing confidence in their industry. **Financial services executives** on the other hand appear to be more optimistic about the economic health of their sector than they do about the overall US economy, with (71.1%), indicating strong confidence in the resilience of financial services for 2015. Similarly, 74.4% in the technology sector remained confident about the state of their industry going forward.

Confidence in the Current State



Surprisingly, despite showing the greatest confidence in the US economy as a whole, manufacturers were less optimistic about their own industry, with only 60.7% of finance executives indicating they were strongly confident about health of their individual sectors.

Financial Performance

With increased optimism for the US economy in 2015, many companies are expecting improved financial results. Seventy nine percent of executives polled expected revenues to increase in 2015, 66% expected earnings to rise, and 49% expected margins to improve.

Earnings are also expected to increase in 65.7% of financial services companies represented, 72.2% of manufacturers, and in 78.6% of technology providers.

- 79% expect to see higher top line revenue in 2015 – up from the 66% who reported anticipated higher revenues in last year's survey
    - CFOs in the banking, technology and technology sectors have the relatively most positive outlooks for their specific industries in 2015
- 66% expect to see higher earnings in 2015 – up slightly from the 64% who reported anticipated higher revenues in last year's survey
- 49% expect to see improved margins in 2015

79% expect to **INCREASE** revenue

Not surprisingly, the mostly commonly cited financial challenge for companies in 2015 will be meeting top-line revenue targets. Forty-four percent of respondents indicated increasing growth was their top challenge, 26% indicated increasing shareholder value would be their second, followed by improving EBITDA, which came in as either the third or fourth priority for 53% of respondents.

How CFOs Plan to Deliver on Top Line Growth for 2015

In order to achieve their growth and revenue targets for the coming year, companies will be more focused on the customer than on any other operational or strategic objective. CFOs are aligning their spending accordingly, and will be placing greater emphasis on achieving greater market share. At the same time, the hunt for top talent continues, and challenges around acquisition and retention will be top of mind for many CFOs in 2015.

Most feel that **focusing on the customer** will be a key driver to increasing top line growth.

For 2015, CFOs will look to become more customer-centric on several different fronts to drive results in 2015:

- 46.1% feel growing their customer's experience is the most important driver of top line growth
- 20% reported meeting the demands of the customer as their main challenge for the coming year
- 61.5% of Finance Executives indicate that their marketing initiatives will be the number one factor impacting their companies success

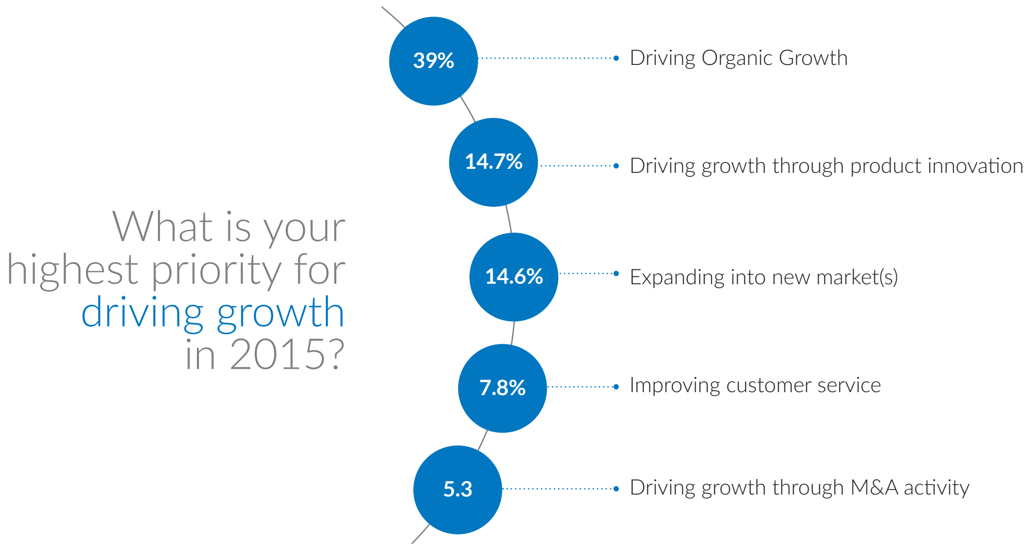
More specifically, 63% of respondents would be spending more in 2015 on increasing market share, with the expectation of achieving high returns on investment. This compares with 57% who felt investing in human capital would yield high returns, and 68% who felt increasing spending on healthcare reform and other health care initiatives would produce little or no value whatsoever.

However, we also see that the relative importance placed upon the customer varies somewhat between sectors. Finance chiefs working in the wholesale sector are more likely to be focusing on the ROI of their marketing efforts this year than in most other industries, with 69.5% indicating this was a top strategy on the road to achieving their growth and revenue objectives. Relatively more technology executives (64.2%) will be focusing on improving their customer's experience, than their peers in other sectors.

Highest Priority for driving growth in 2015

Strategies for driving successful growth will tend to vary considerably between companies, and often rely on a combination of tactics that may include M&A, organic growth, product innovation, or expanding into new markets, for example. In determine the focus of US based companies for 2015, we asked financial executives, which of these tactics will constitute their primary strategy going forward? The greatest number of companies in our sample will be focusing on increasing output and sales of their existing product lines, will not likely to actively looking to acquire other companies, or consider exploring the development of new products and services for new territories.

For 2015, almost 40% of the companies surveyed are likely to focus on organic growth, as opposed to growing through acquisitions (5.4%). This compares to roughly 15% who will be driving growth through developing new products or selling into new markets. These results are consistent with our survey demographic that shows that a large proportion of the companies in our sample only sell into the US market (44.1%).



Challenges to growth

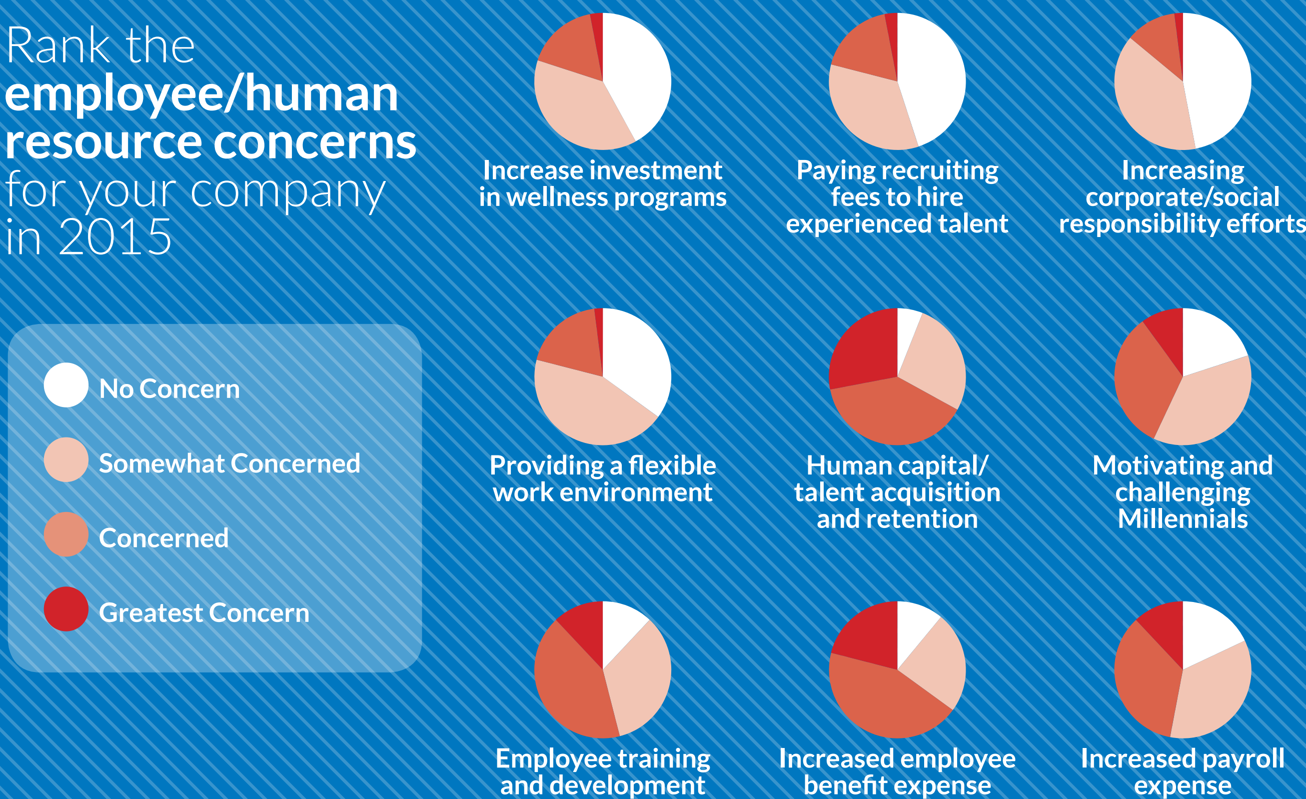
Achieving growth objectives for the coming year will also hinge upon the finance chief's ability to weigh and manage a wide variety of risks.

The two main operational challenges CFOs will be addressing in 2015 will evolve around their companies' ability to improve their responsiveness to changing customer expectations and their ability to recruit and retain top talent. These two issues far outweighed concerns around other operational risk factors such as their company's ability to access capital or issues around information governance. More specifically, one in five companies saw meeting the demands of the customer as their main challenge for the coming year. However, some companies are clearly better prepared to meet their market expansion objectives than others. For example, roughly one in four survey respondents told us that they really didn't have a clear understanding of their customers nor did they think that there companies were as focused on product and service differentiation as their competitors were.

Another 20% of financial executives also had deep concerns about how they would effectively manage their workforce going forward.

When looking at HR issues specifically, over two thirds, (66%) of finance chiefs were either concerned or greatly concerned about talent acquisition and retention in 2015.

Rank the **employee/human resource concerns** for your company in 2015



This is consistent with the overall sentiment that their organization's ability to retain talent was generally not good. When ranked on a score of 1 to 5, with 1 being no answer, 2 - not so good, 3 -improving, 4 - satisfactory and 5 being excellent, their ability to recruit talent in the United States achieved a score of 2.6, and their ability to recruit talent internationally worsened to 1.9.

This is followed by 64% who were worried about increasing employee benefits expenses, 53% who said employee training and development would be an issue in the coming months, and 42% who were either concerned or very concerned about how to challenge and motivate younger employees.

Relatively fewer finance chiefs were concerned about providing a flexible work environment, (21%) paying recruiting fees (20%), increasing investment in wellness programs (19%), or increasing corporate social responsibility programs (13%).

Meanwhile, roughly 25% of senior finance executives were concerned with cyber security risk and one in five would be pursuing a significant system upgrade in 2015. This compares with 30% of manufacturers who are concerned with their information, data and communications systems and who will be making upgrades in the coming months, 26% of technology companies, 12.5% of wholesalers/retailers, and 8.8% of financial services companies and banks.

Of the three largest groups in our sample, executives in the financial services sector however are least likely to invest on improving communications or information systems (8.8%).

Spending Priorities for 2015

CFOs are often charged to do more with less, but in general this will not be the case for CFOs in 2015 in terms of overall spending, and other key areas including employee wages and benefits, data security/cloud computing, social media marketing, and on hardware and software.

Costs of operations are expected to rise across many categories in 2015, and 67% of respondents expected spending to rise overall. More specifically, 70% of companies are expecting wages and employees benefits to rise, roughly half will be spending more on data security/cloud computing, social media marketing, and on hardware and software. Roughly one quarter anticipate spending more on R&D, real estate and office space charges, and on M&A.

To determine where companies were strategically placing their dollars in the coming months, we also asked senior finance executives to identify where they expected both spending to increase and where they expected a positive ROI.

67% of CFOs report an expected increase in overall spending in 2015 - up from the 63% who reported anticipated higher overall spending in 2014 relative to 2013 (This is primarily driven by reported 66% increase of overall spend in Business Services, 60% increase in Manufacturing and 56% increase within the Technology industry)

- Only 8% report an expected decrease in overall spending decrease in 2015
- 70% of companies plan to increase spending on employee wages and benefits in 2015- up from the 66% who reported anticipated higher spending in this area in 2014 relative to 2013 (With the largest increase coming from the Manufacturing sector – 65%)
- Investments that will be directed towards increasing market share will be the single most common form of investment for companies in 2015, with 63% of respondents indicating that their spend levels will increase, and that they expect a healthy ROI in that category
- 57% of CFOs indicating they will increase investments in acquiring high performing talent in 2015, which they expect to yield a high ROI
- 53% of CFOs indicating they will increase investments in overall employee training and development in 2015, which they expect to yield a meaningful ROI
- 61% of CFOs indicating they will increase investments in innovative technologies in 2015, which they expect to yield meaningful ROI
- 90% report to increase or keep technology spending the same in 2014
- Forced spending however will also be on the increase as 68% of companies expect health care costs to rise, with either a low payback, or no payback. Only 2% of respondents expected to pay less on health care in 2015, but 23% expected no change over last year.

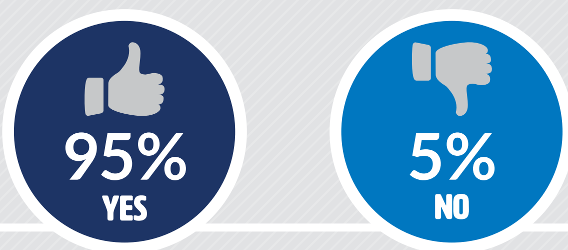
How will you allocate your spending in 2015 **in comparison** to 2014?

Companies will become more resilient in 2015 by focusing on improving innovation and the ability to recruit talent. Here is how CFOs measure their current culture strengths:

Organizational Culture

Achieving objectives in 2015 will also depend highly on the organizational culture of the firm. This is where our findings show there is much room for improvement. While an overwhelming majority of senior finance executives believe that organizational culture impacts the bottom line (94.8%) several areas of organizational culture were found to be lacking.

Do you think that **culture impacts the bottom line**?



For example, when comparing cultural elements such as corporate alignment with the senior management team, employee alignment with corporate strategy, achieving a culture of innovation, achieving a culture of accountability, and whether or not senior leadership initiatives aligned with corporate culture, our respondents felt that on average, only the alignment between senior leadership and corporate strategy was satisfactory. This suggests that while c-suite executives are on the same page with respect to rolling out their corporate mission, a communication gap exists throughout the lower levels of the organization. Although not yet satisfactory, all other elements of corporate culture were seen to be improving, with creating a culture of innovation requiring the most work going forward.

When asked about the role of the CEO specifically in improving corporate culture, views were decidedly mixed. Forty two percent either disagreed or strongly disagreed that their CEO spent a lot of his or her time on building and maintaining their corporate culture, compared to 54% who either agreed or strongly agreed that this was indeed their role.

Finance is positioned to **take ownership** of more strategic projects

The Evolving Role of the CFO

The leadership reach of the CFO will expand both organizationally and operationally in 2015 while CFOs will become more "hand's on" as they recognize the value of being more of a social CFO which encompasses a better understanding what makes customers tick and increased level of direct engagement in human capital acquisition and development.

Survey results which illustrate how the CFO role will continue to evolve in 2015 include the following:

- Over 50% report they will have greater involvement in matters related to corporate direction, strategy, and creating long term shareholder value
- 25% expect broader organizational responsibility including oversight over HR, IT, and business development activities
- Over 20% report greater ownership of shorter term projects/initiatives

The expanding role of the CFO requires effective collaboration across the enterprise. One department with which Finance leaders have historically been challenged in terms of creating strategic alignment is the Marketing department. CFOs will look to improve the level of collaboration with their marketing colleagues as 61.5% of CFOs indicate that their marketing initiatives will be the number one factor impacting their company's success.

The CFO Role in Customer Engagement & Human Capital is Critical in 2015

In examining all of the influences and factors that define CFOs outlook for 2015 and potentially impact the successful execution of growth initiatives in 2015, it is clear that customer engagement and human capital optimization will each play a meaningful role for CFOs if they are to deliver top line and bottom line growth in the face of what they characterize as general global macroeconomic headwinds.

The importance of human capital to CFOs in delivering results in 2015 is glaring evident when considering the following survey results:

- 70% of companies will increase spending on employee wages and benefits in 2014
- 57% of CFOs indicating they will increase investments in acquiring high performing talent in 2015, which they expect to yield a high ROI
- 53% of CFOs indicating they will increase investments in overall employee training and development in 2015, which they expect to yield a meaningful ROI
- 66% of finance chiefs were either concerned or greatly concerned about talent acquisition and retention in 2015
- 20% of financial executives reported to have deep concerns about how they would effectively manage their workforce in 2015 and beyond
- 93% of respondents ranked finding and retaining the right talent as their top employee/HR concern

In A Nutshell - CFO focus for 2015

As CFOs embrace an ever-increasing role and responsibility for setting corporate direction and strategy, and recognize the value of truly understanding their customers, their confidence and ability to affect top to bottom organizational performance increases. Confidence in their own ability to execute and embrace the role of the Social CFO by playing a more active role in directing human capital investments and the professional development of employees across the enterprise may explain their optimism to deliver both top and bottom line growth in 2015 despite current headwinds in the global economy from a macro-economic perspective.

Not surprisingly, the most common goal for senior finance executives across the board is to increase top line revenue growth through increasing market share.

Meanwhile, inflationary pressures will continue as employee wages and benefits costs rise.

Overall spending is expected to increase, and Investments in technology (hardware/software) will grow over the next twelve months, with the largest bang for the buck to be expected from investing in innovative technologies that can help companies improve market share.

While spending on M&A is expected to rise for one in four companies, M&A is not the main strategy for growth in US firms, compared to growing organically by increasing sales and output in existing markets.

Finding and keeping the right talent will keep CFOs up at night in 2015, as many are expected to deliver strong growth in revenues over the coming months.

Companies will look to become more customer-centric, make investments in the acquisition and optimization of human capital, and leverage existing growth channels to deliver results in 2015.

Against this backdrop, the role of the CFO continues to become broader and more strategic, as the senior finance chiefs play a greater role in determining corporate direction, strategy and creating long term shareholder value.

The CFO Alliance is committed to providing its Members with best-in-class research, resources, connections and exchange. Powered by some of the world's leading corporate, industry, media and academic partners, The CFO Alliance has become the go-to networking and learning platform for today's leading finance executives.

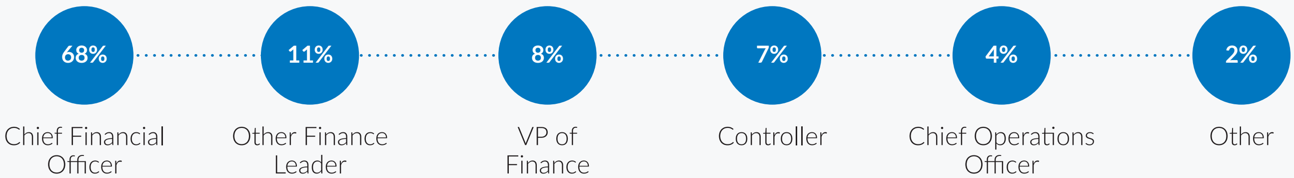
About the Study

The 2015 CFO Sentiment Study was conducted by The CFO Alliance over the months of November and December, 2014 and a total of 605 responses were obtained from senior financial executives across the country. Most questions asked for a response on a 5-point scale and the standard error of measurement was approximately 0.11. Questions and contributions to this study were provided by, ACCA, AFEX, Drinker Biddle & Reath LLP, FinancialForce.com, Radius Worldwide, Workforce Dynamics and others.

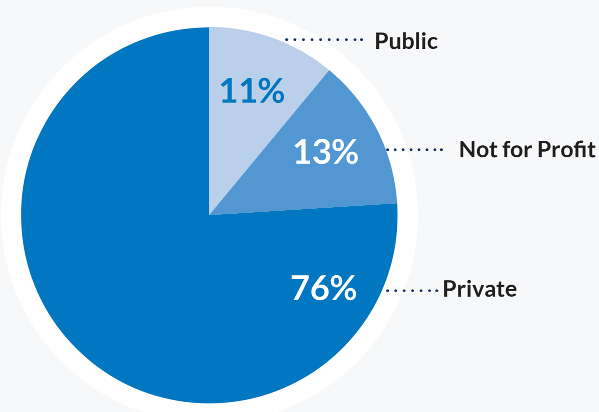
The majority of respondents were from privately held companies, located in the upper mid-east. 62.7% were CFOs.

Roughly 53% percent of companies had revenues less than 50 million, one third (33.3%), had revenues between 50 million and 500 million and 12.9% were over 500 million. Survey results were weighted toward the manufacturing sector (88 respondents). The majority of respondents were CFOs (67.6%).

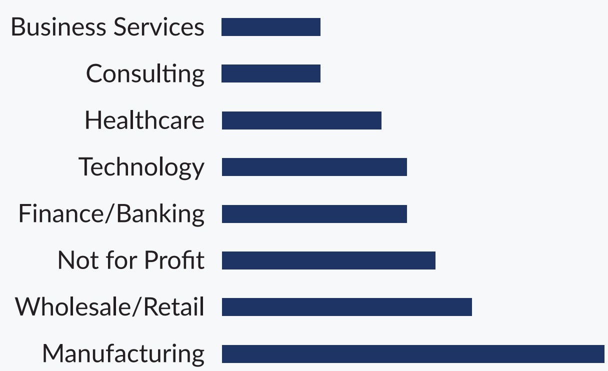
Job Title



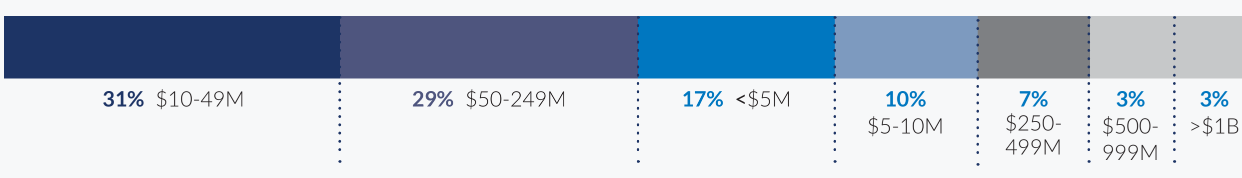
Company Type



Top Industry Concentrations



Annual Revenue



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Contact Us info@thecfoalliance.org (610) 316-1660 **thecfoalliance.org**