

# CFOinnovationASIA

BUSINESSOUTLOOKSURVEY

FIRST QUARTER 2013



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# KEY TAKEAWAYS

CFO Innovation Asia surveyed 169 CFOs, finance directors, controllers and other senior executives across Asia from 29 December 2012 to 7 January 2013. The key findings include the following:

**There is a sharp increase in optimism in CFO sentiment on the growth prospects of the economy where they are based.** Half of the finance executives polled (50%) now say they are more optimistic or very optimistic, compared with just 30% who said the same in the previous quarter. This level of optimism is the highest since the first quarter 2011 survey.

By economy, respondents based in India (59%) and Malaysia (55%) are the most optimistic, followed by Hong Kong (47%) and China (38%).

Singapore is host to the least optimistic CFOs, only 26% of whom say they are more optimistic today. Four out of ten (44%) are actually less optimistic or not optimistic at all about the growth prospects of the Singapore economy.

**Confidence in company performance has likewise strengthened.** More than five out of ten respondents (54%) are optimistic about the growth prospects of their firm, up from 39% in the previous survey. Nearly six out of ten (58%) expect higher sales (previous quarter: 54%) while 53% forecast bigger profits (previous quarter: 48%).

**CFOs remain sanguine about some company-level risks.** Only 27% of the executives surveyed now expect receivables at risk to increase, the same level as in the two previous surveys, down from 31% in the second quarter of 2012. The proportion of those forecasting a longer Days Sales Outstanding period has also fallen sharply, to just 19% from 29% and 26%, respectively, in the previous two surveys.

**While companies remain cautious on capital spending, they appear to be more willing to invest more in sales and marketing and R&D.** Only 35% of respondents say their firm will increase capital expenditures, roughly the same proportion as in the previous two surveys. But 36% will spend more on marketing and advertising (29% and 30%, respectively, in the previous two surveys). And 22% will increase R&D investment (previous survey: 17%).

The proportion of companies that will intensify M&A activity stands at 21%, down from 27% in the fourth quarter of last year.

**Consumer demand remains on top of the list of external concerns.** It is rated as a top-three concern by 47% of respondents (previous survey: 51%). Worries about government regulations have increased sharply – it is cited by 42% of respondents as a top-three external issue, from only 31% in the previous quarter.

## Key Takeaways

Sales and profits: Greater expectations  
Intensifying worries about regulations

Economic outlook: Heightened optimism in 2013

Holding steady on capex

Fewer hiring – but higher pay

Talent as perennial concern

Back to marketing

Equally positive at the company level

More comfortable with risk

About this report

Currency risk (29% vs. 26% previously) and foreign competition (27% vs. 23%) round out the list of key external concerns. Worries over an influx of foreign rivals have been rising since the beginning of 2012, when 19% of respondents cited this external issue as a top-three concern.

As noted in previous reports, this may be an indication of actual or expected refocusing of US and European MNCs, and Asian regional businesses, on selling to Asian consumers and businesses as domestic consumption becomes a key driver of growth across the region and the economic environment in the US and Europe remains volatile.

**As in previous surveys, attracting and retaining qualified employees continues to be the top internal concern.** Indeed, the proportion of respondents that cite talent management as a top-three internal concern has risen sharply to 60% from 49% in the previous quarter. Cost-cutting is a far second at 38% (previous survey: 41%), followed by working capital management at 30% (previous survey: 29%).

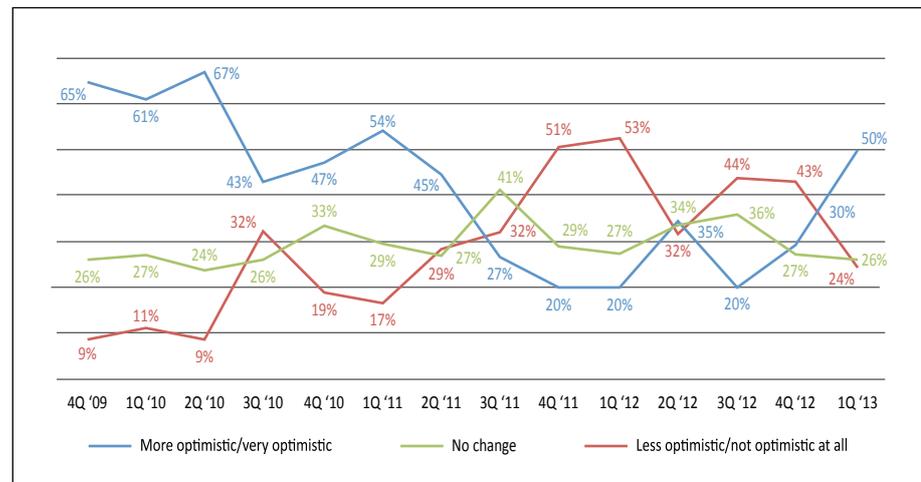
Interestingly, supply chain risk is climbing the list of internal concerns – 21% cite this as a top-three concern, up from just 13% in the previous quarter.

**For the first time, ‘renewing focus on sales and marketing’ has overtaken ‘expanding to new markets’ as the top strategic focus.** In previous surveys, expansion (66% in the previous survey) was the top-three strategic priority for companies in the next 12 months. In this survey, sales, marketing and distribution is cited by the highest number of respondents as a top-three strategic focus (54%), followed by reducing overhead costs (52%) and expansion to new consumer segments and/or geographical markets (50%).

It may be that companies are feeling the need to nurture and strengthen the market share they already have in consumer segments and geographical markets, in addition to continuing expansion into new areas. If so, this is a wise move since there is little point in expanding into fresh markets and then neglecting to deepen penetration and growth.

## Economic outlook: Heightened optimism in 2013

How optimistic are you about the prospects of the economy where you are based?

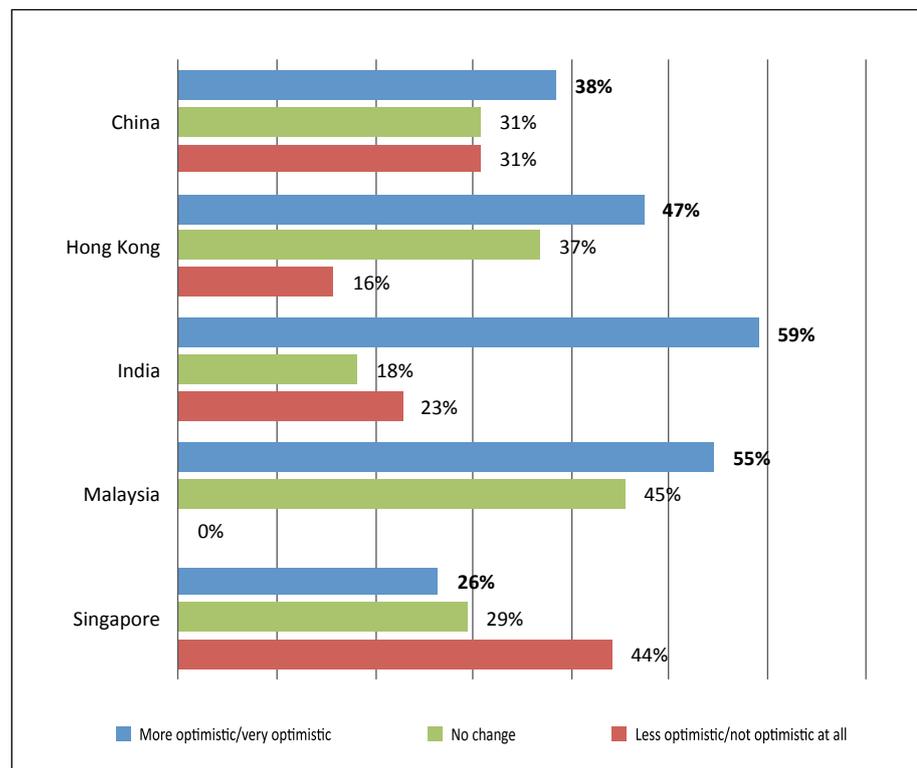


Base: 160 respondents (4Q 2009); 205 (1Q 2010); 215 (2Q 2010); 165 (3Q 2010); 147 (4Q 2010); 144 (1Q 2011); 119 (2Q 2011); 165 (3Q 2011); 215 (4Q 2011); 192 (1Q 2012); 286 (2Q 2012); 250 (3Q 2012); 162 (4Q 2012); 169 (1Q 2013). Totals may not add up to 100% due to rounding

Optimism about the growth prospects of the economy where the respondent is based has spiked sharply, with 50% of Asia's CFOs now saying they are more optimistic or very optimistic, compared with 30% who said the same in the previous quarter. The proportion of those who are less optimistic or not optimistic at all has correspondingly fallen, to just 24%, from 43% in the previous survey.

At half of respondents, the level of optimism is the highest since the first quarter of 2011, when 54% of respondents said they were more optimistic or very optimistic about the growth prospects for their economy.

## Optimism by country



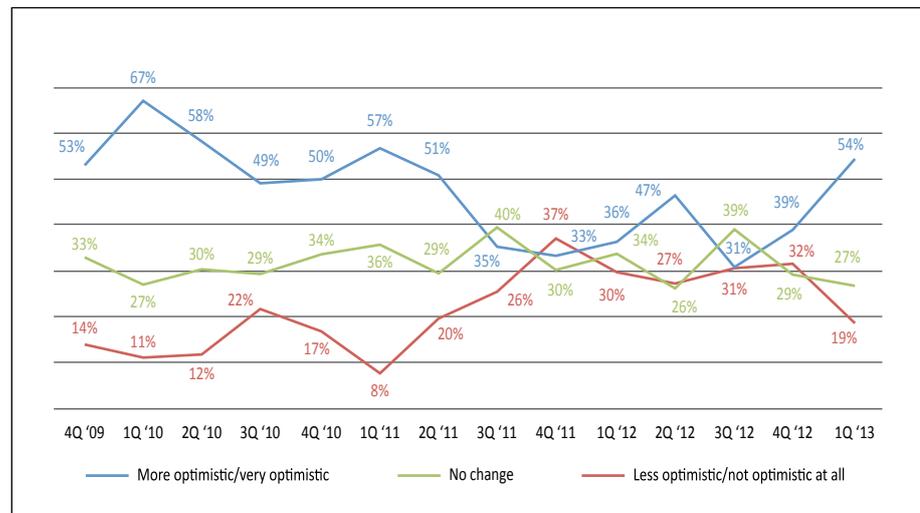
Base: 99 respondents

Finance executives based in India are the most positive about that country's economic prospects, with 59% optimistic, followed by Malaysia (55%), Hong Kong (47%) and China (38%).

CFOs in Singapore are the least optimistic, with only 26% forecasting economic growth in that economy. Highly exposed to the global economy, Singapore's GDP is forecast to have grown by just 1.5% to 2.5% in 2012, whereas China, Hong Kong, India and Malaysia are expected to have turned in a considerably more robust economic performance.

## Equally positive at the company level

How optimistic are you about the growth prospects of your own company?



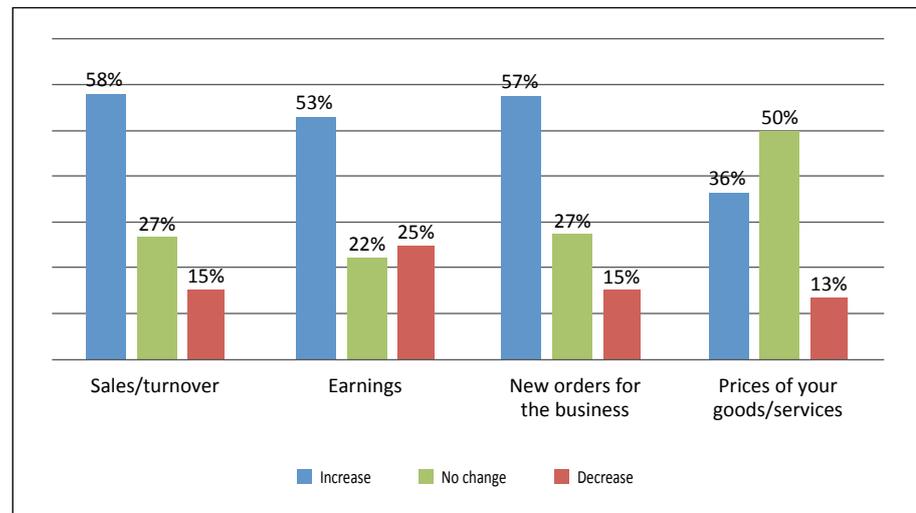
Base: 124 respondents (4Q 2009); 202 (1Q 2010); 214 (2Q 2010); 163 (3Q 2010); 143 (4Q 2010); 143 (1Q 2011); 116 (2Q 2011); 164 (3Q 2011); 214 (4Q 2011); 188 (1Q 2012); 286 (2Q 2012); 249 (3Q 2012); 161 (4Q 2012); 167 (1Q 2013). Totals may not add up to 100% due to rounding

The executives surveyed are equally optimistic about the growth prospects for their own company. More than five out of ten (54%) express optimism, up from 39% in the previous survey.

The level of pessimism has correspondingly fallen, with only 19% saying they are less optimistic – down from 32% in the last survey.

## Sales and profits: Greater expectations

What changes does your company anticipate  
in the next 12 months?



Base: 157 respondents. Totals may not add up to 100% due to rounding

Consistent with the greater optimism on the company's growth prospects, 58% of the executives surveyed expect sales to rise in the next 12 months (previous survey: 54%), while 53% forecast larger profits (previous quarter: 48%).

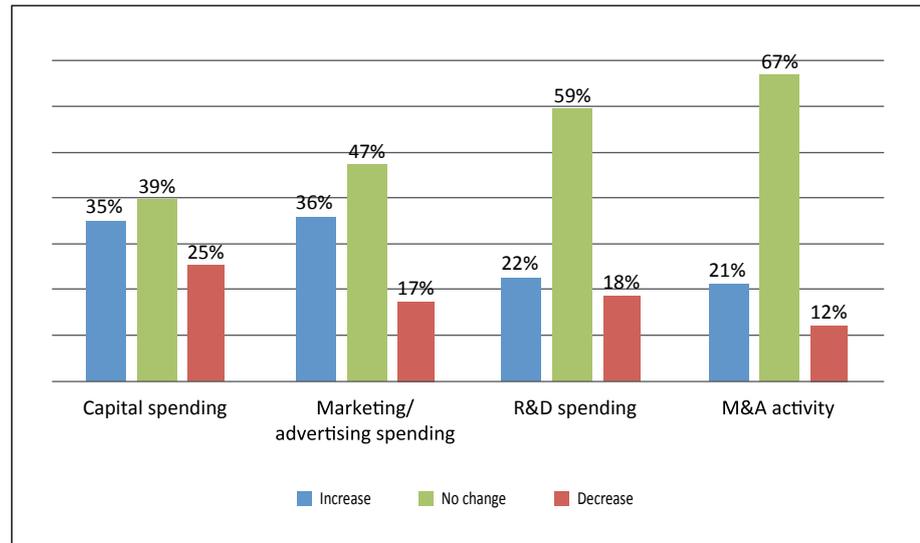
There is a similar spike in expectations with regards to new orders for the business (57% say they will be getting

more of them, up from 42% in the previous quarter), possibly reflecting improvement in the exports environment in China and elsewhere in Asia and more buoyant domestic consumption.

The proportion of those who believe their company will enjoy pricing power going forward has increased as well, to 36% from 32% in the previous survey.

## Holding steady on capex

What changes does your company anticipate in the next 12 months?



Base: 157 respondents. Totals may not add up to 100% due to rounding

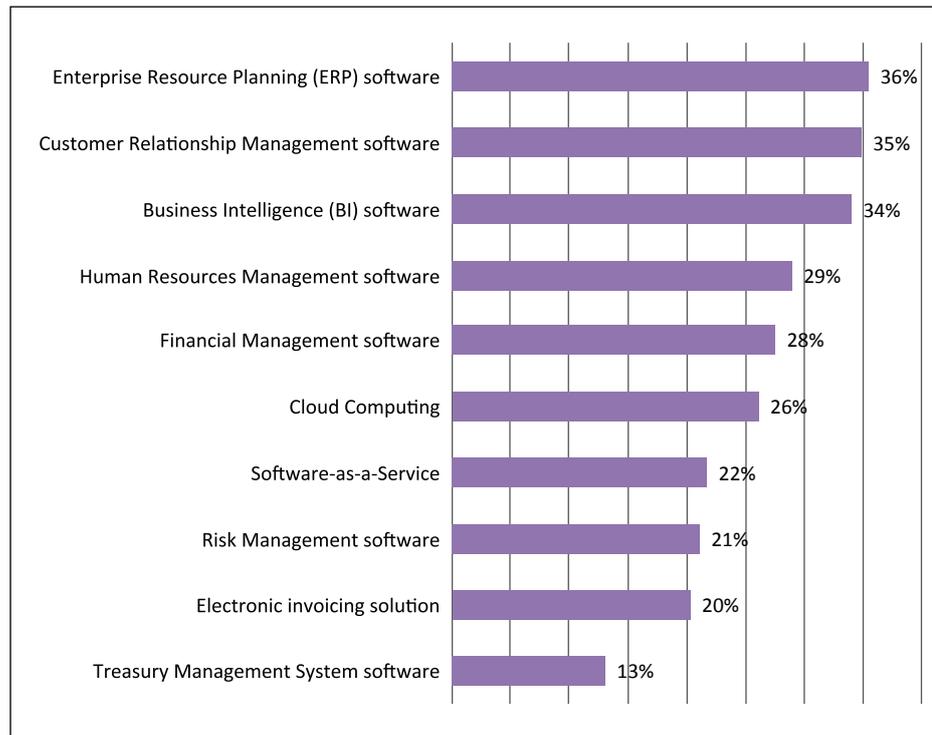
Caution in capex and other spending has been evident in the three previous surveys and this continues to be the case in this current research. The proportion of respondents who say their company will increase capital expenditures remains at 35%.

A majority (51%) had planned to increase capex in the third quarter of 2011. In this current survey, 25% will actually cut back on capital spending (previous survey: 28%).

The business category that will see higher spending is sales, marketing and distribution. Thirty-six percent of the executives surveyed will spend more on marketing and advertising, compared with 29% and 30%, respectively, in the previous two surveys. In addition, 22% will increase R&D investment (previous survey: 17%).

The proportion of companies that will intensify M&A activity stands at 21%, down from 27% in the fourth quarter of last year.

## Software spending in 2013



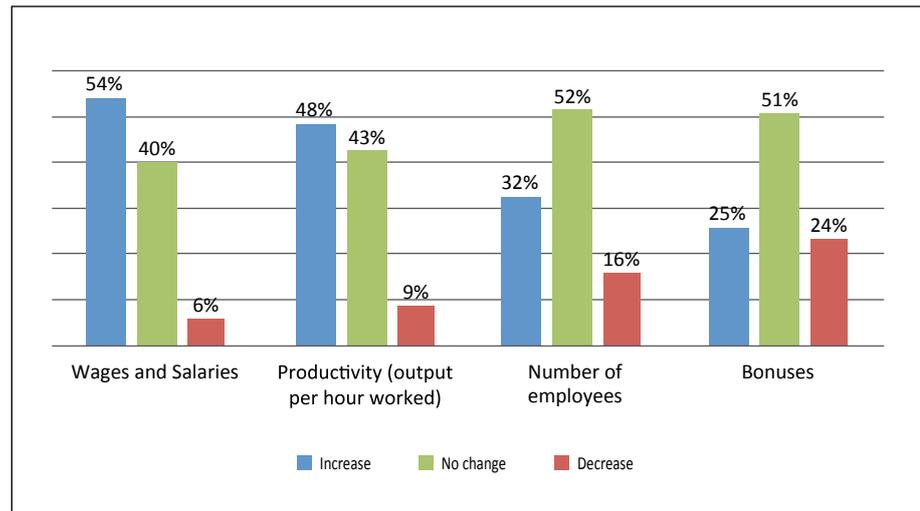
Base: 138 respondents.

Asked what enterprise software solutions their company will invest in this year, the respondents most often mentioned enterprise resource planning (36%), customer relationship management (35%) and business intelligence (34%).

Cloud computing (26%) and software as a service (22%) also garner significant mentions, along with HR and financial management solutions.

## Fewer hiring – but higher pay

What changes does your company anticipate in the next 12 months?



Base: 157 respondents. Totals may not add up to 100% due to rounding

It's still status quo on personnel matters. The majority of respondents (52%) expect employee numbers to remain unchanged, compared with 42% who said the same in the previous survey. Only 32% of companies will be hiring (previous quarter: 34%).

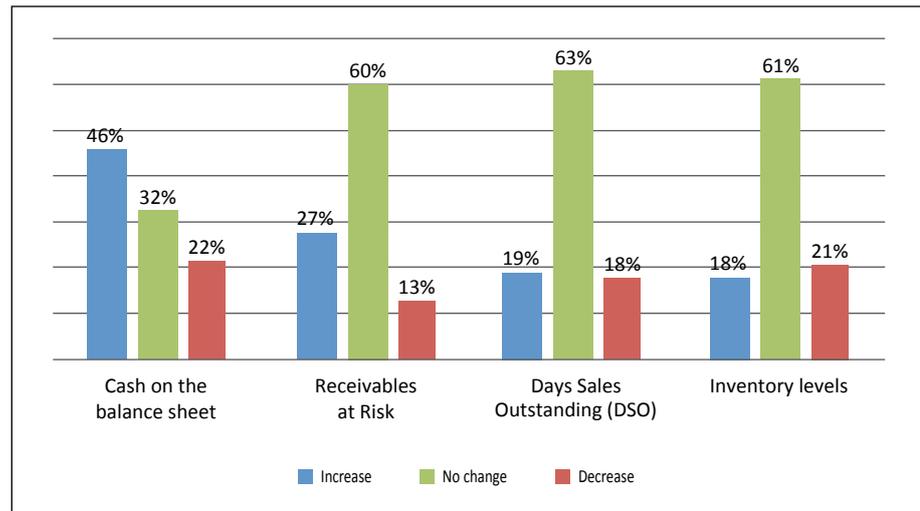
The majority of companies will increase

wages and salaries (54%), though the proportion of those doing so is now lower compared to the same time last year (69%). Bonuses will remain unchanged (51%) or even decreased (24%).

Forty eight percent expect productivity (output per hour worked) to increase (previous survey: 52%), with 43% predicting no deterioration.

## More comfortable with risk

### What changes does your company anticipate in the next 12 months?



Base: 157 respondents. Totals may not add up to 100% due to rounding

Only 27% of respondents are seeing increased volumes of receivables at risk in their company (previous survey: 28%), much lower than the 43% at this time last year. The proportion of those forecasting a longer Days Sales Outstanding period remains low at 19% (compared with 29% and 30%, respectively, in the previous two surveys).

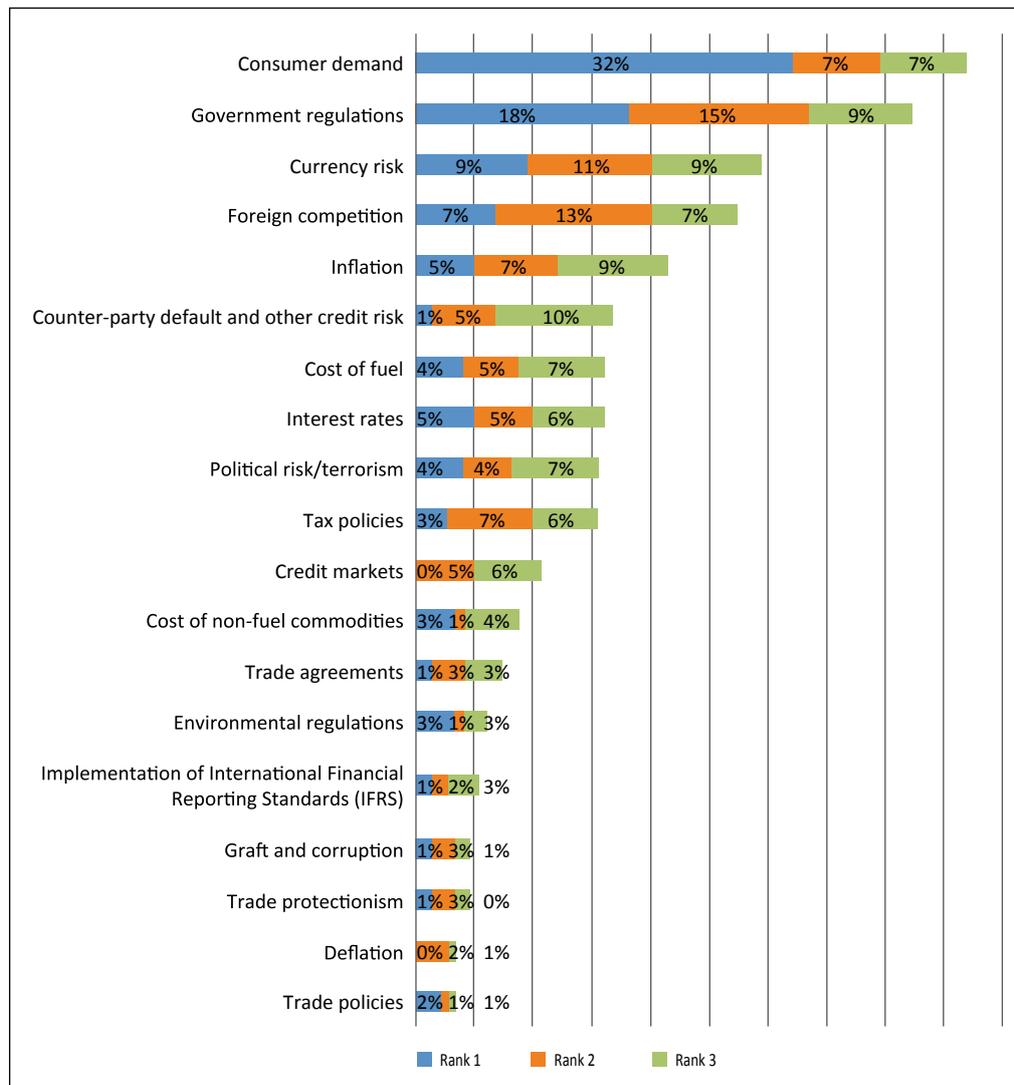
Consistently since this survey was started in September 2009, respondents indicate that their company will not decrease cash

on the balance sheet. The proportion of enterprises that will bring down cash levels has never gone beyond 23% – until the fourth-quarter 2011 survey, when 29% said their company would decrease cash levels in the next 12 months.

This trend may be reversing. Only 22% of respondents now say their company will decrease cash on the balance sheet, compared with 30% at this time last year. Forty six percent of respondents say their company will continue accumulating cash (previous survey: 36%).

# Intensifying worries about regulations

## What are the most serious external issues that face your company?



Base: 145 respondents.

Respondents were asked to identify and rank the top three external issues their company faces, with Rank 1 denoting the most serious concern. Consumer demand is ranked No. 1 worry by 32% of respondents. In all, 47% rank consumer demand as a top-three concern (previous survey: 51%).

Worries about government regulations have increased sharply. It is ranked No. 1 concern by 18% of respondents, versus 11% in the previous survey. Regulations is cited as a top-three external issue by 42% of the executives surveyed, from only 31% in the previous quarter.

This may be a reflection of policy actions such as the new levy on property transactions in Hong Kong and Singapore for certain corporate buyers, expectations of new rules and regulations in China, Japan and Korea as new political

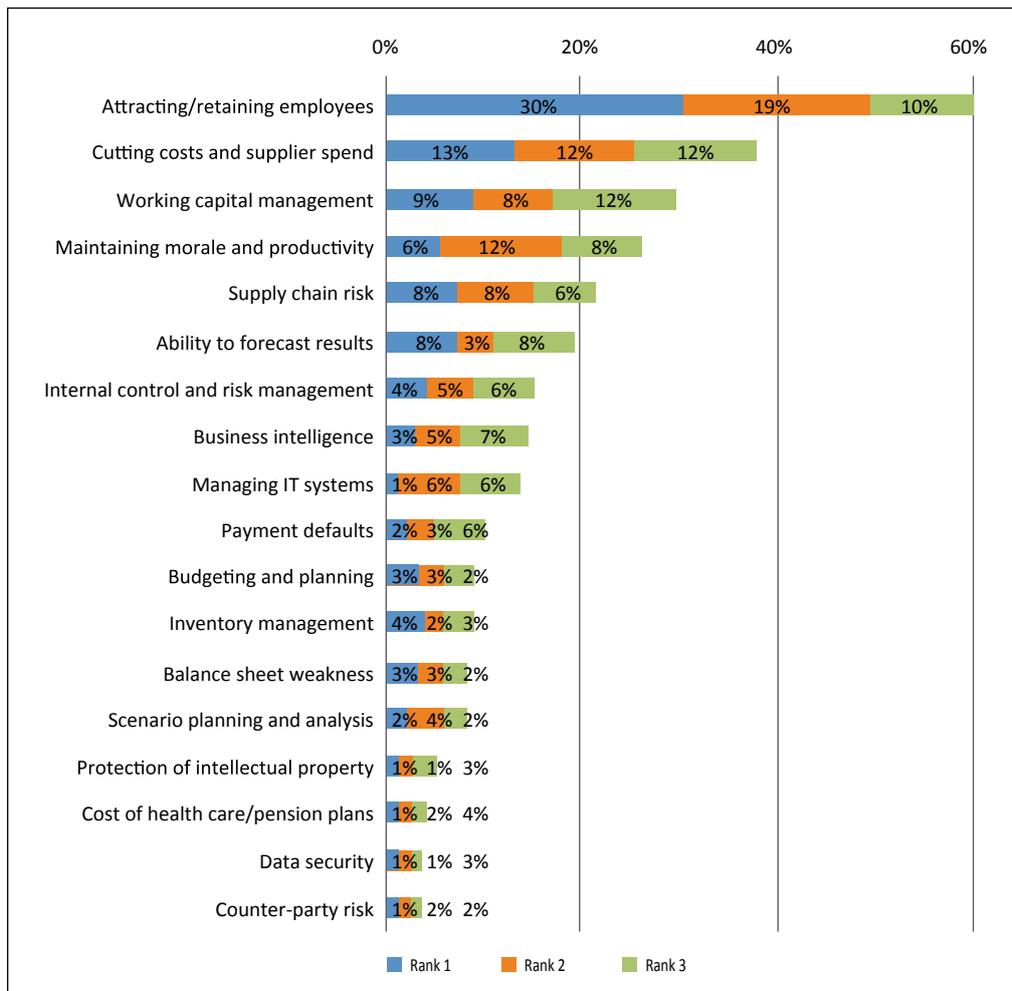
leaderships take power and local policy responses to global banking, anti-money laundering, anti-corruption, climate-change, corporate governance and accounting initiatives.

Currency risk (29% vs. 26% previously) and foreign competition (27% vs. 23%) round out the list of key external concerns. Worries over an influx of foreign rivals have been rising since the beginning of 2012, when 19% of respondents cited this external issue as a top-three concern.

As noted in previous reports, this may be an indication of actual or expected refocusing of US and European MNCs, and Asian regional businesses, on selling to Asian consumers and businesses as domestic consumption becomes a key driver of growth across the region and the economic environment in the US and Europe remains volatile.

# Talent as perennial concern

## What are the most serious internal issues that face your company?



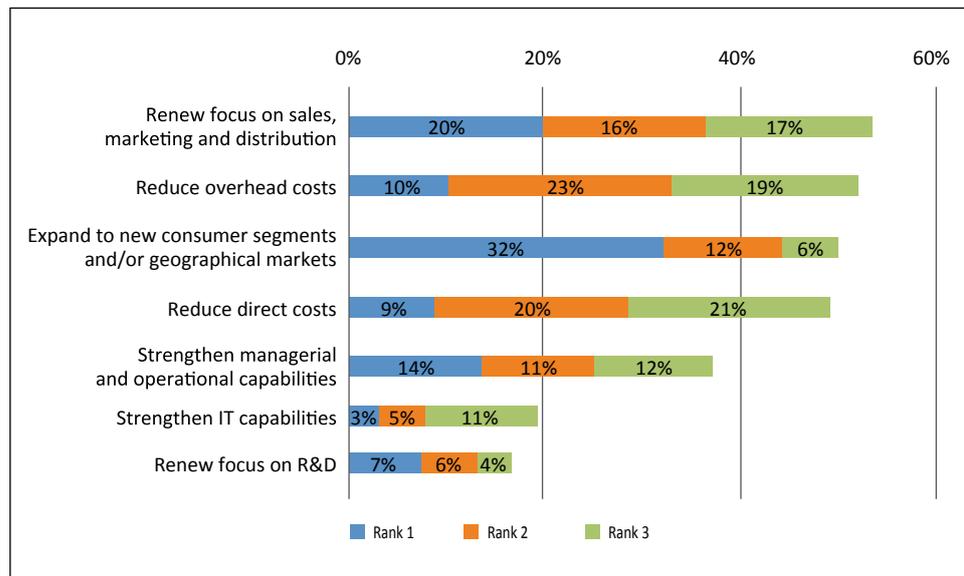
Respondents were also asked to identify and rank the top three internal issues their company faces. Attracting and retaining qualified employees is ranked yet again as the No. 1 internal challenge by the most number of respondents (30% versus 25% in the previous survey). The proportion of respondents that cite talent management as a top-three internal concern has risen sharply to 60% from 49% in the previous quarter.

Cost-cutting is a far second as a top-three concern at 38% (previous survey: 41%), followed by working capital management at 30% (previous survey: 29%).

Interestingly, supply chain risk is climbing up the list of internal concerns – 21% cite this as a top-three concern, up from just 13% in the previous quarter.

# Back to marketing

## What is your company's strategic focus in the next 12 months?



Base: 140 respondents

For the first time since this survey was started in September 2009, 'renewing focus on sales and marketing' has overtaken 'expanding to new markets' as a top-three strategic focus.

In previous surveys, expansion (66% in the previous survey) was the top-three strategic priority for companies in the next 12 months. In this survey, sales, marketing and distribution is cited by the highest number of respondents as a top-three strategic focus (54%), followed by reducing overhead costs (52%) and expansion to new consumer segments and/or geographical markets (50%).

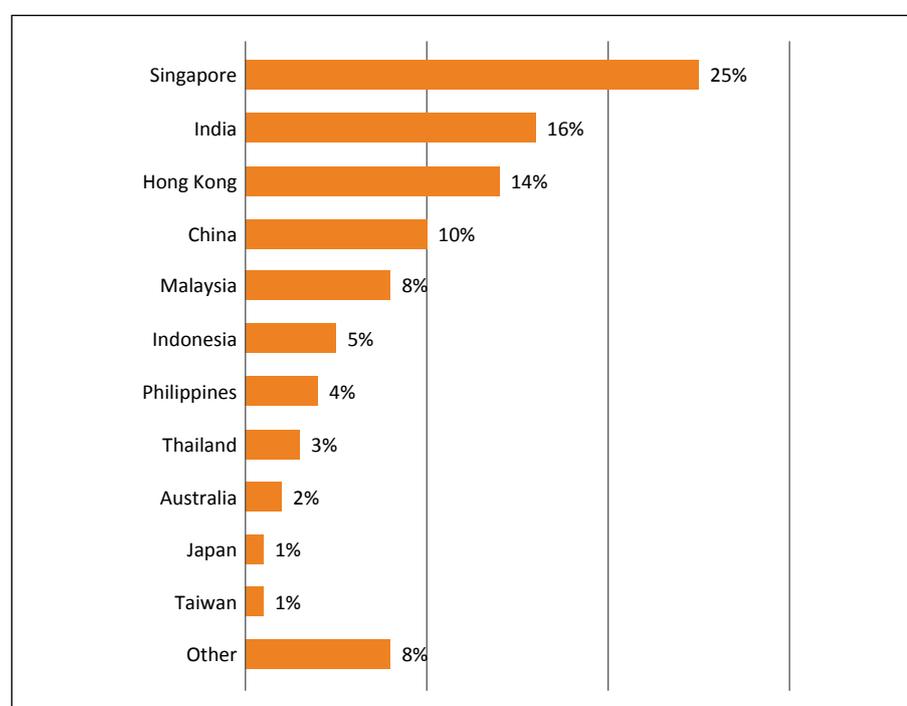
It may be that companies are feeling the need to nurture and strengthen the market share they already have in consumer segments and geographical markets, in addition to continuing expansion into new areas. If so, this is a wise move since there is little point in expanding into fresh markets and then neglecting to deepen penetration and growth.

## About this Report

Fieldwork for this online survey was conducted from 20 December 2012 to 7 January 2013. Cesar Bacani, CFO Innovation's Editor-in-Chief, devised the questionnaire, analysed the results, and wrote the report. Dick Wong, Questex Asia Art Director, designed the report.

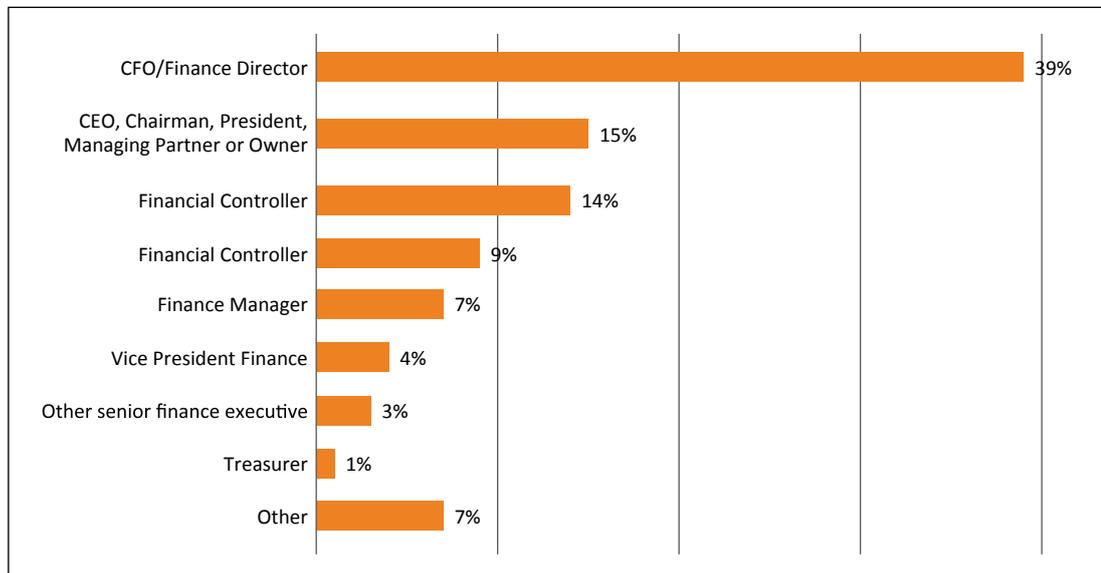
A total of 169 respondents from Singapore, India, Hong Kong, China, Malaysia and other jurisdictions in Asia participated in this survey. They are CFOs, finance directors, controllers and other senior executives who work in a range of companies in terms of turnover, employee numbers and industry.

### Respondents are personally based in the following markets . . .



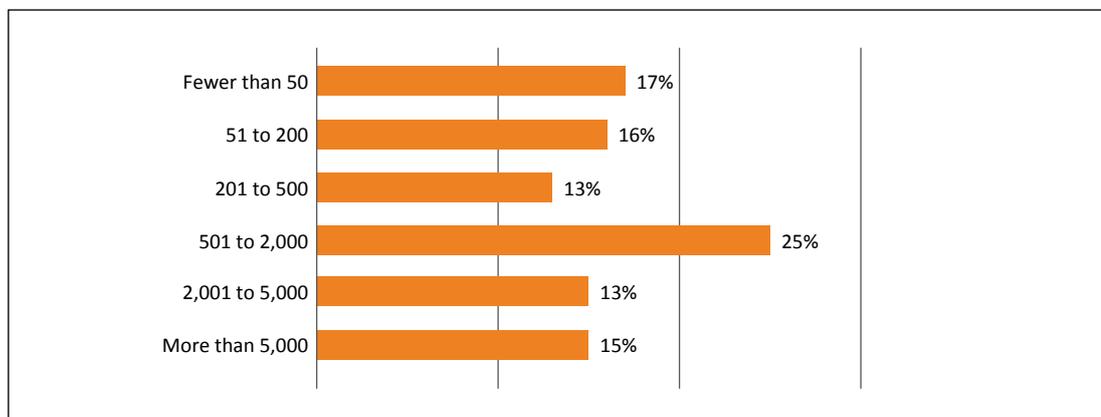
Total may not add up to 100% due to rounding

### ... hold positions with the following titles ...



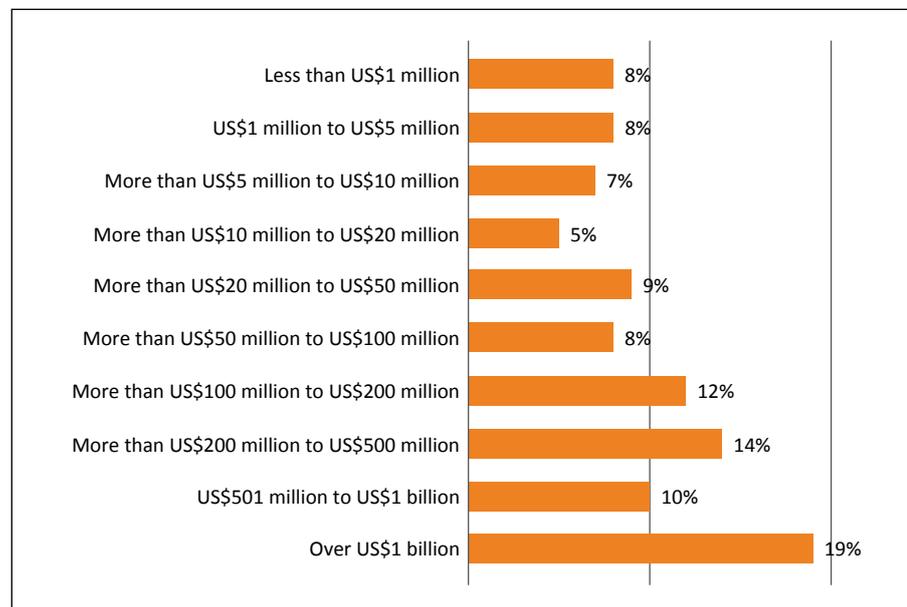
Total may not add up to 100% due to rounding

### ... work in companies with these employee numbers ...



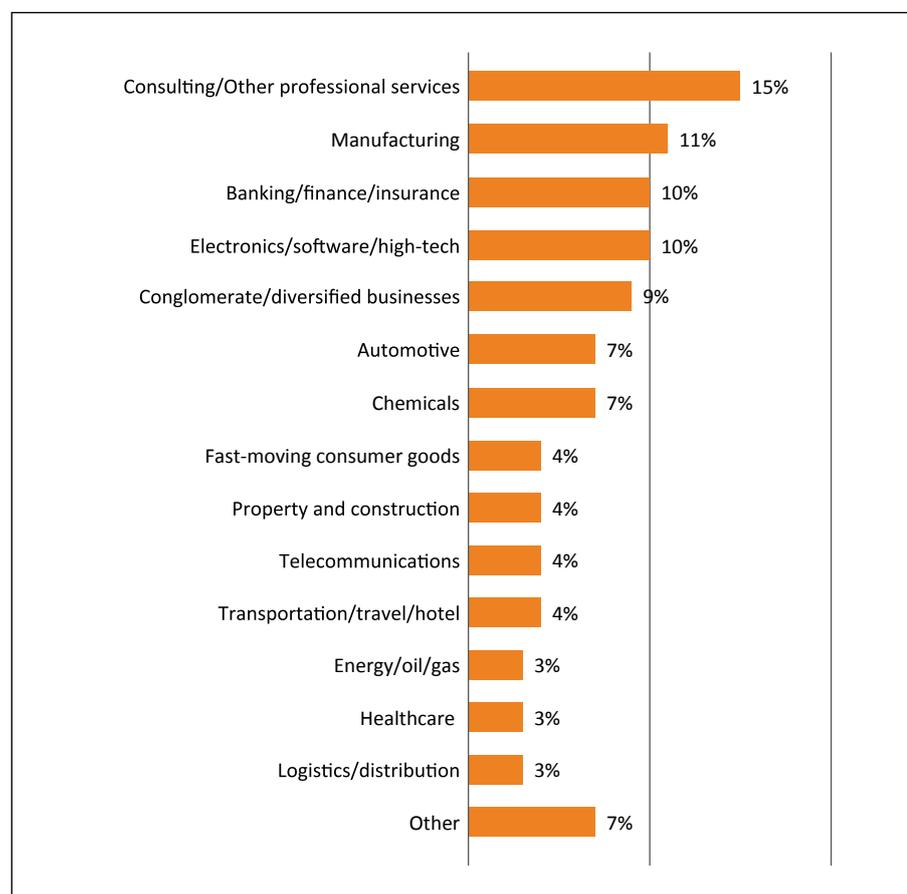
Total may not add up to 100% due to rounding

## ... have the following in annual global turnover ...



Total may not add up to 100% due to rounding

## ... and engaged in the following industries:



Total may not add up to 100% due to rounding

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