



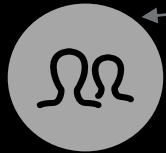
European CFO survey

Winter is coming | Autumn 2018 | Industry

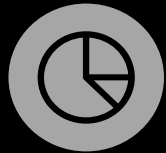
EMEA Research Centre (ERC)

Michela Coppola

Navigating the deck



Countries and timing



Sample composition

The interactive icons allow you to go directly to a specific section



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The findings discussed in this report are representative of the opinions of 1,373 CFOs in 20 European countries

Geographical spread



20 countries

Austria, Belgium, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Luxembourg, the Netherlands, Norway, Poland, Portugal, Russia, Sweden, Switzerland, Turkey and the UK



Survey period



August to September 2018

Respondents

Total



1,373 CFOs

By industry



1,341 CFOs

By size



1,338 CFOs



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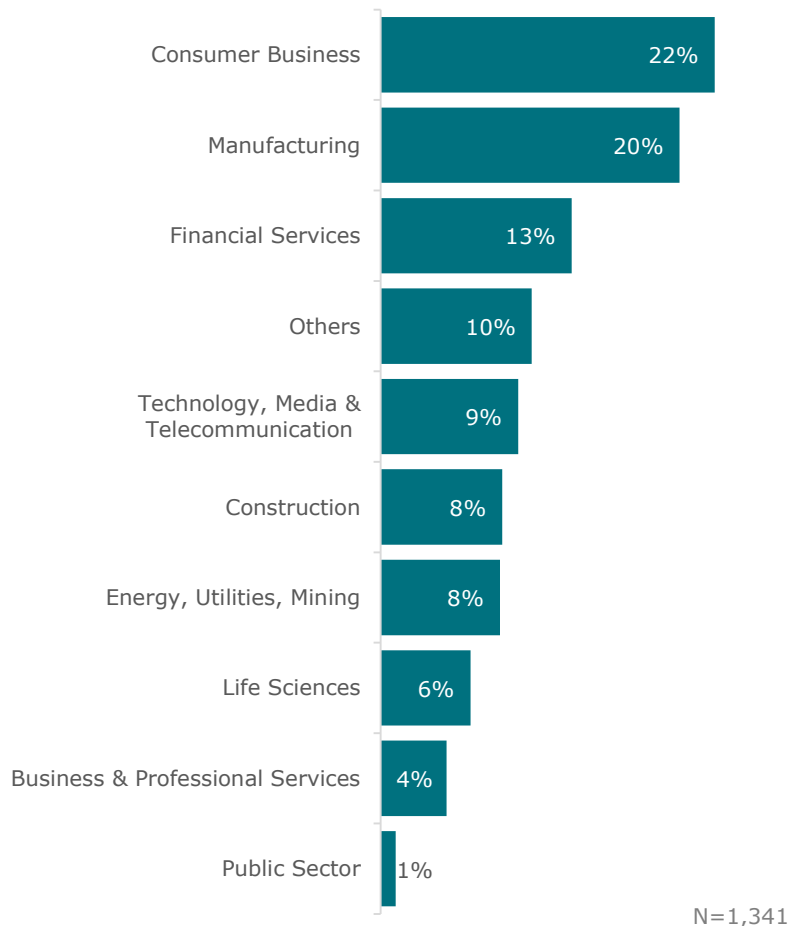


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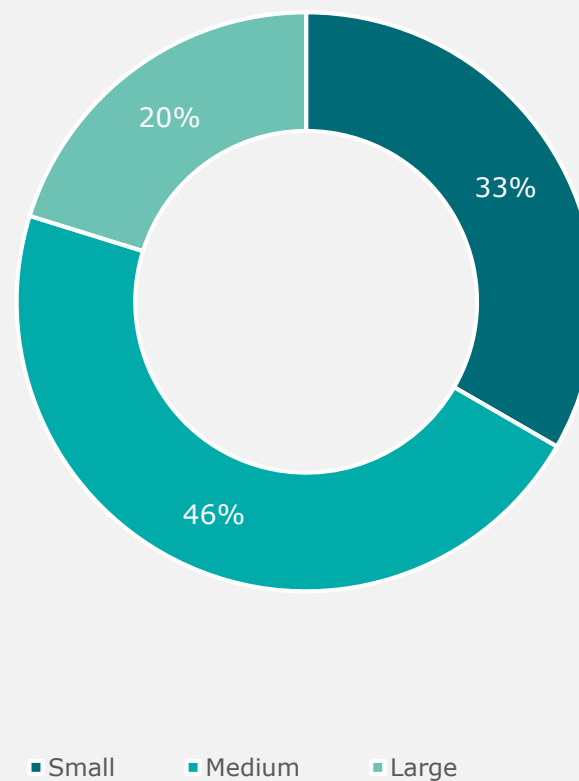


Sample composition – industry and business size

Respondents by industry



Respondents by business size (size defined based on yearly revenues)



N=1,338

* Note: Due to rounding, not all percentages shown in the charts will add up to 100%



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Key insights



General findings



Trends by industries



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Businesses are getting wary but they are not in despair. CFOs continue keeping their eyes on the longer term but companies need to prepare for rainy days ahead.



CFOs' sentiment has deteriorated

- Optimism among CFOs dropped substantially compared to the beginning of the year. On average, CFOs' sentiment is at the lowest level since Spring 2015 – although sentiment within the euro area still remains above the lowest level reached in Autumn 2016
- Perceived external uncertainty has increased compared to the previous edition of the survey – particularly amongst CFOs in the euro area
- As a consequence, CFOs are now more cautious about taking risks - with the share of CFOs willing to take risk, at the lowest level since the beginning of the series.



Expectations dropped but remain fairly positive

- With the exception of UK and Turkey, expectations for revenues, operating margins, investments and hiring remain positive – although less rosy than in Spring 2018
- CFOs remain willing to invest both in physical and human capital: particularly within the euro area, investment and hiring intentions remain roughly at the same level as one year ago
- Expansionary strategies remain a priority, likely driven by the structural need to keep pace with technological change and new business models.



Skills shortages remain a primary concern for CFOs

- Although concerns about geopolitical risks and economic uncertainties have moved up the priority scale compared to Spring - a lack of skilled labour still remains a concern
- CFOs feel the labour force is under-skilled, mainly lacking the appropriate technical knowledge. However, about one out of four CFOs consider 'problem solving and adaptability' a difficult skill to source
- CFOs are pressing ahead with automation to address the shortages. Only a minority report that they are recruiting from non-traditional labour pools: in an ageing continent like Europe this could be a strategic mistake.



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Key trends by selected industries



Construction

- CFOs **confidence** about the financial prospects of their company **declined** compared to last Survey, but less than in other industries. The majority of CFOs continue to expect no change.
- CFOs perceive the external environment as less uncertain than their peers in other industries. Accordingly, investment and hiring intentions remained quite stable.
- Compared to other industries, CFOs in the construction industry are **the least likely to report an increase in automation** to address skills shortages. **Retraining internal staff** is the most widely used strategy in the industry.



Technology, media, telecommunications

- **CFOs' sentiment in the TMT industry remain relatively positive** – with a majority of CFOs reporting their confidence being broadly unchanged and the proportion feeling less optimistic about the financial prospects of their company only slightly increasing.
- Expectations about **revenues remain stable and positive**: about two third of CFOs expect revenues to grow – although the **outlook for the operating margins deteriorated**.
- Two thirds of CFOs in the TMT industry report **technical skills** as the most difficult to find - the highest share across all industries. Although offering an **attractive work environment** is the strategy most extensively adopted, one out of five CFOs use **offshoring** to address skills shortages- the highest proportion across all industries.



Energy, utilities, mining

- The level of **optimism** among CFOs in this industry is **the highest** across all industries. The proportion perceived the **external level of uncertainty** as high **increased** compared to Spring 2018, but less than in other industries.
- This is the only industry where **expectations regarding all four metrics** (revenues, margins, investments and hiring) **increased** compared to Spring 2018.
- CFOs in this industry are the **least likely to report difficulties** in finding workers with the required **soft skills**.



Financial services

- The level of **perceived external uncertainty increased** more than in other industries so that CFOs in the financial services industry are now those perceiving the highest level of uncertainty. Similarly, they are also the least willing to take risk.
- Although investing intentions deteriorated compared to the Spring 2018 edition, CFOs in the financial services industry remain particularly **willing to increase investment**.
- More than in other industries, CFOs in financial services are **pressing forward with automation** to address skills shortages.



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Key trends by main sectors in the consumer business industry



Consumer goods

- CFOs in the consumer goods industry are **among the least confident in the Survey**. The proportion of CFOs feeling less optimistic about the financial prospect of their company more than doubled compared to Spring (from 12% to 31%).
- **Expectations** around the development of revenues and margins are **positive but the net balances are among the smallest** in the sample. Similarly, although investment and hiring intentions remain positive, CFOs in this sector are the **least willing to increase CAPEX** or the number of employees.
- After technical skills, **problem solving and adaptability** are the most difficult skills to find according to 29% of CFOs in this sector – one of the highest proportion. **Retraining of internal staff** is the second most used strategy after automation to tackle the lack of skills.



Retail

- CFOs in this industry are **the least confident about the financial prospects** of their company compared to their peers in other industries.
- The **expectations around the development of revenues and margins deteriorated significantly** – for both metrics the fall in net balances has been the biggest across industries.
- CFOs in retail are the **least likely to report a lack of technical skills**. Almost 30% report to lack workers more than specific skills. **Retrain of internal staff** is the strategy more often used to tackle skills shortages – **ahead of automation**.



Transport & logistics

- Compared to CFOs in other industries, CFOs in transport & logistics remain **relatively confident about the financial prospects** of their companies. Furthermore, CFOs in this sector are the **most willing to take risk**.
- The net balance of CFOs expecting to increase the **capital expenditures increased** compared to Spring and it is now the highest across all sectors. On the contrary, **hiring intentions dropped** dramatically in this sector.
- The proportion of **CFOs reporting a general lack of labour** – rather than specific skills, **is the highest** in the sample. The **use of temporary resources** is the second most used strategy to address the shortage of skilled labour.



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Key trends by main sectors in the manufacturing industry



Industrial products & services

- The proportion of **CFOs feeling less optimistic** about the financial prospects of their company **almost tripled** (from 8% to 22%) since last spring so that the level of confidence is by now among the lowest in the sample.
- CFOs in this sector remain **the most bullish about the development of the operating margins** of their company, with almost half of the CFOs expecting margins to increase over the next months.
- CFOs in this sector report difficulties in finding workers with the **appropriate technical knowledge more often than in other sector**. However, **also a general lack of skilled labour** is a major concern in this sector: 29% of CFOs report they lack labour rather than specific skills – the second highest proportion across industries.



Automotive

- Although CFOs in automotive perceive the **external level of uncertainty to be particularly high** – with the **highest net balance** across all industries and the **biggest increase** compared to Spring, their confidence dropped less than in other sectors. Nonetheless, CFOs' optimism remains relatively low compared to other sectors.
- One third of CFOs in automotive expects the **operating margins to decrease** over the next 12 months – the highest share across all sectors. However they remain **bullish** when it comes to expectations about **revenues**, with more than 70% of CFOs expecting revenues to increase.
- CFOs in the automotive sectors are **the least likely to retrain internal staff** as strategy to address skills shortages. One out of four addresses the issue via **outsourcing** – the highest share across all sectors.



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What CFOs are saying about:



Financial prospects



Uncertainty



Risk appetite



Revenues



Operating margins



Capex



Hiring intentions



Skills shortage and strategies to address them



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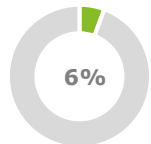


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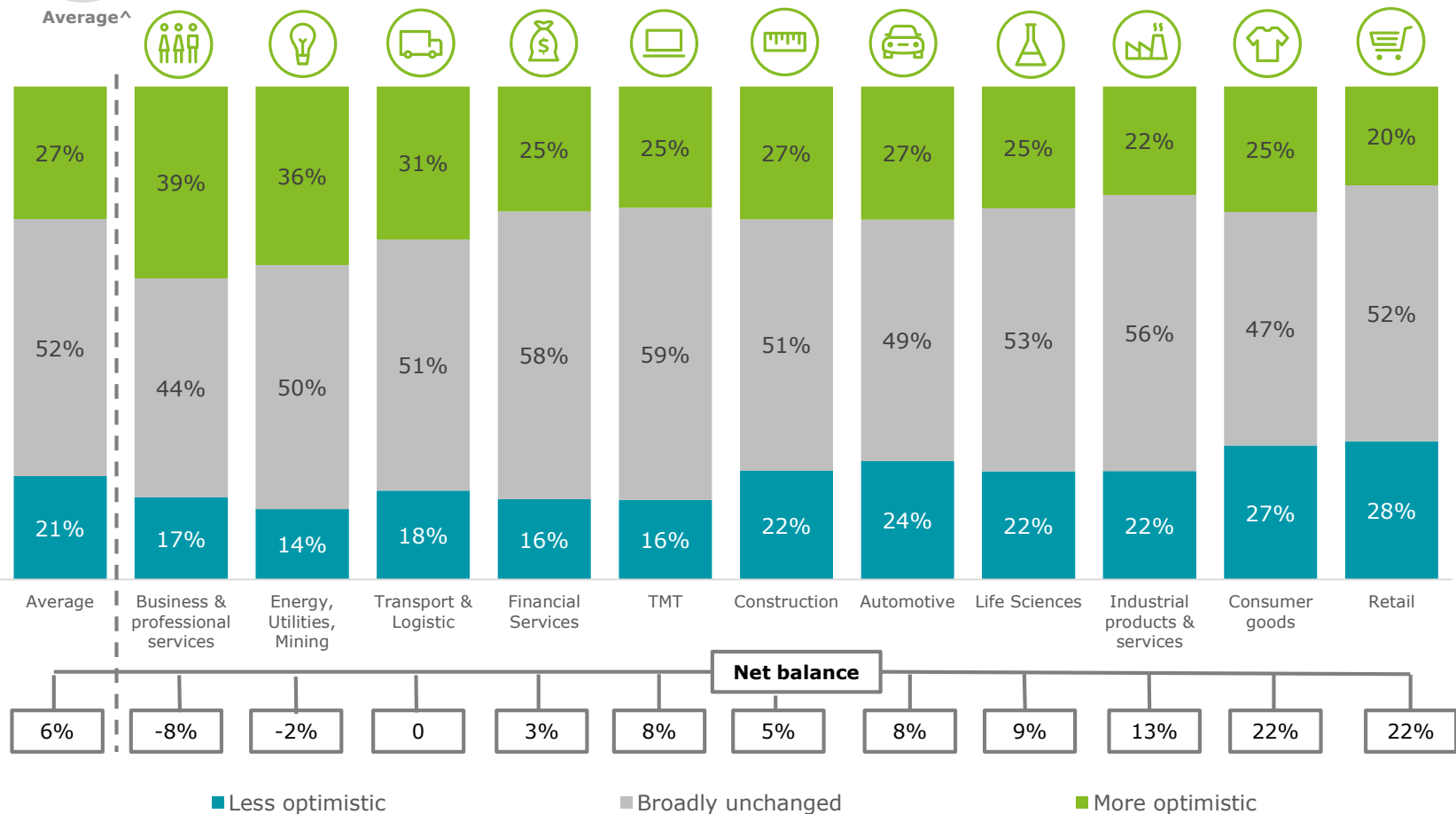


Financial prospects: Losing confidence

Compared to three months ago, how do you feel about the financial prospects for your company?*



27% of CFOs feel **more optimistic** about the financial prospects of their companies compared to three (six) months ago. 21% are **less optimistic** and 52% believe things are **broadly unchanged** which leads to a net balance of 6%.



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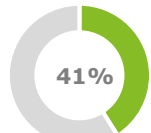
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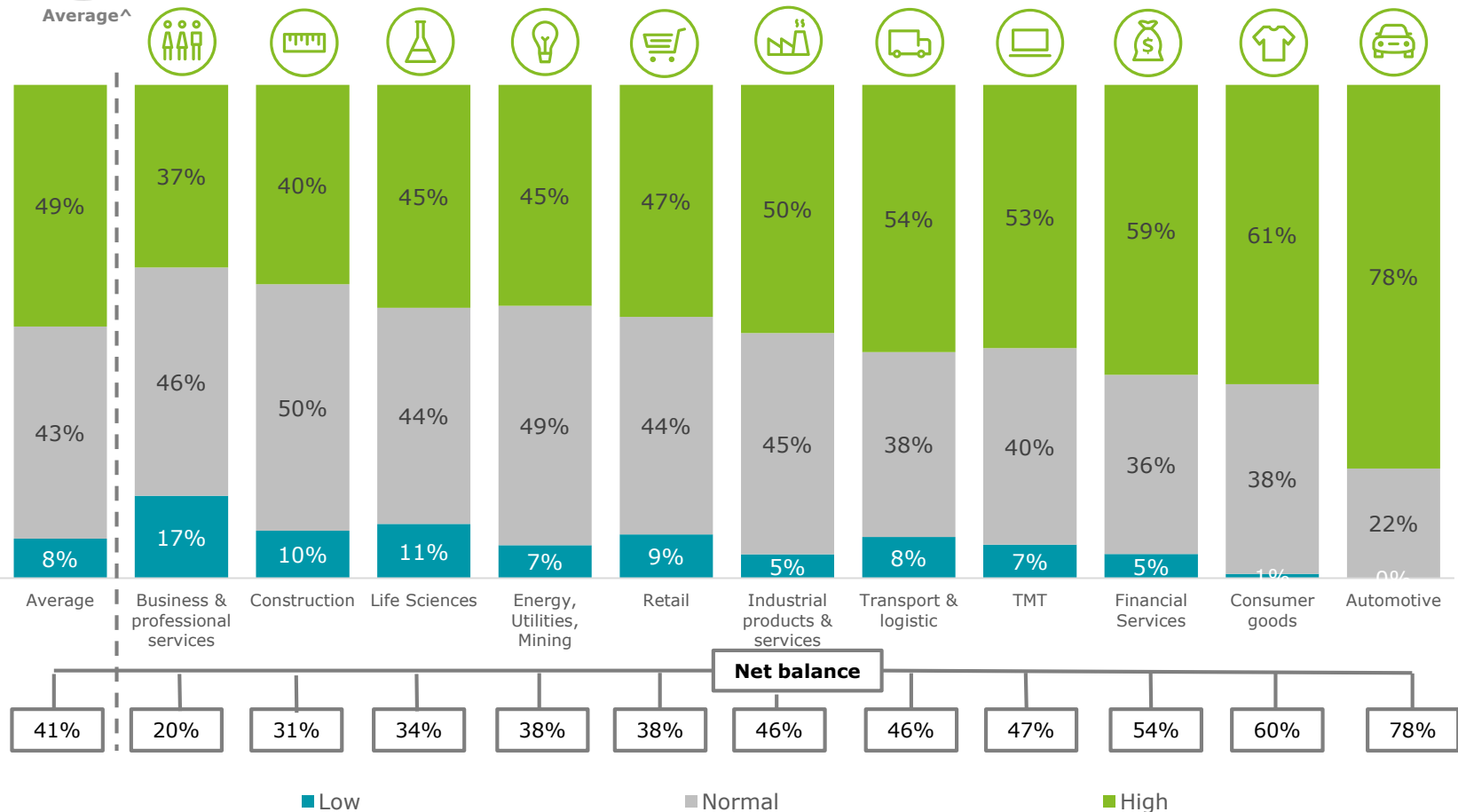
* Note: : In Denmark, Finland, Norway, Italy, Poland the question specified a six-month period.
 ^ Unweighted average calculation is based on the number of respondents who have identified their industry

Uncertainty

How would you rate the overall level of external financial and economic uncertainty facing your business?



49% of CFOs in Europe rate the level of external financial and economic uncertainty as high, 43% as normal and 8% as low. This leads to a net balance of 41% who perceive the level of uncertainty as high.



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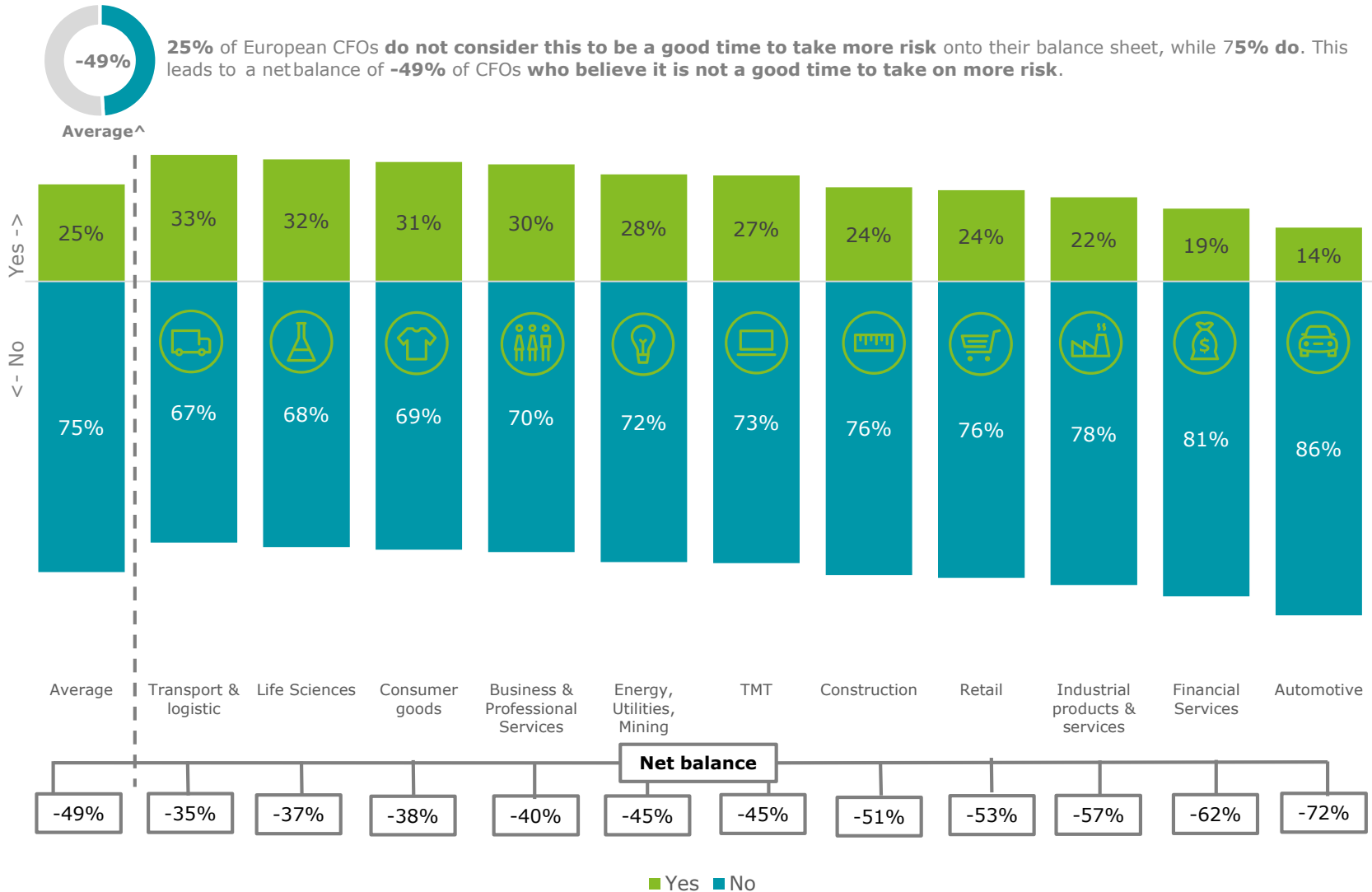
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^ Unweighted average calculation is based on the number of respondents who have identified their industry

Risk appetite: CFOs more cautious about taking risks

Is this a good time to be taking greater risk onto your balance sheet?



^ Unweighted average calculation is based on the number of respondents who have identified their industry



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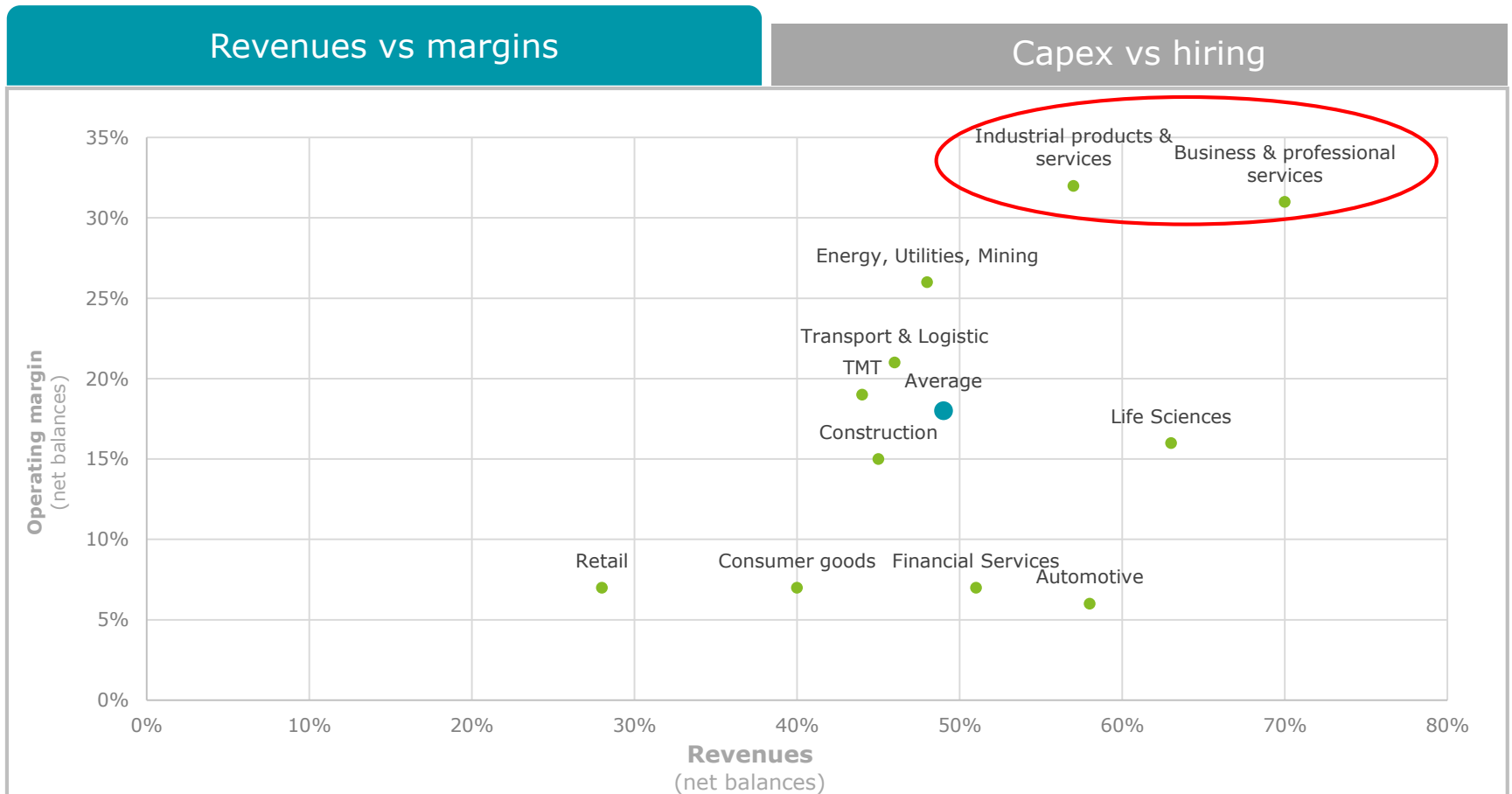


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Expectations on revenues and operating margins

In your view how are revenues and operating margins for your company likely to change over the next 12 months?*



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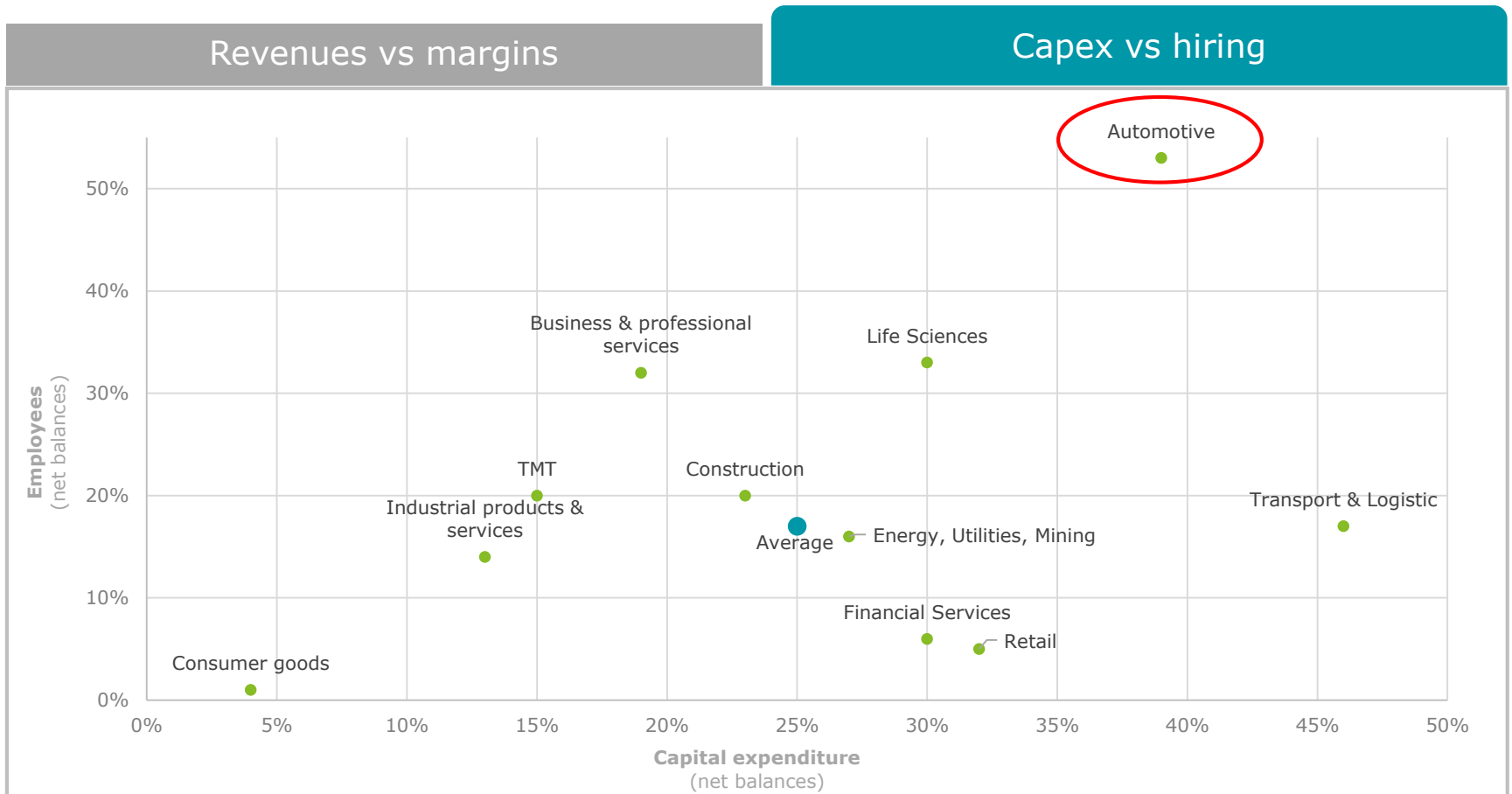
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*Note: In the UK CFOs were asked, "How are capital expenditure/the outlook for hiring for UK corporates likely to change over the next 12 months?" In Finland the question specified a six-month period.

Expectations on capital expenditure and hiring of employees

In your view how are capital expenditure and number of employees for your company likely to change over the next 12 months?*



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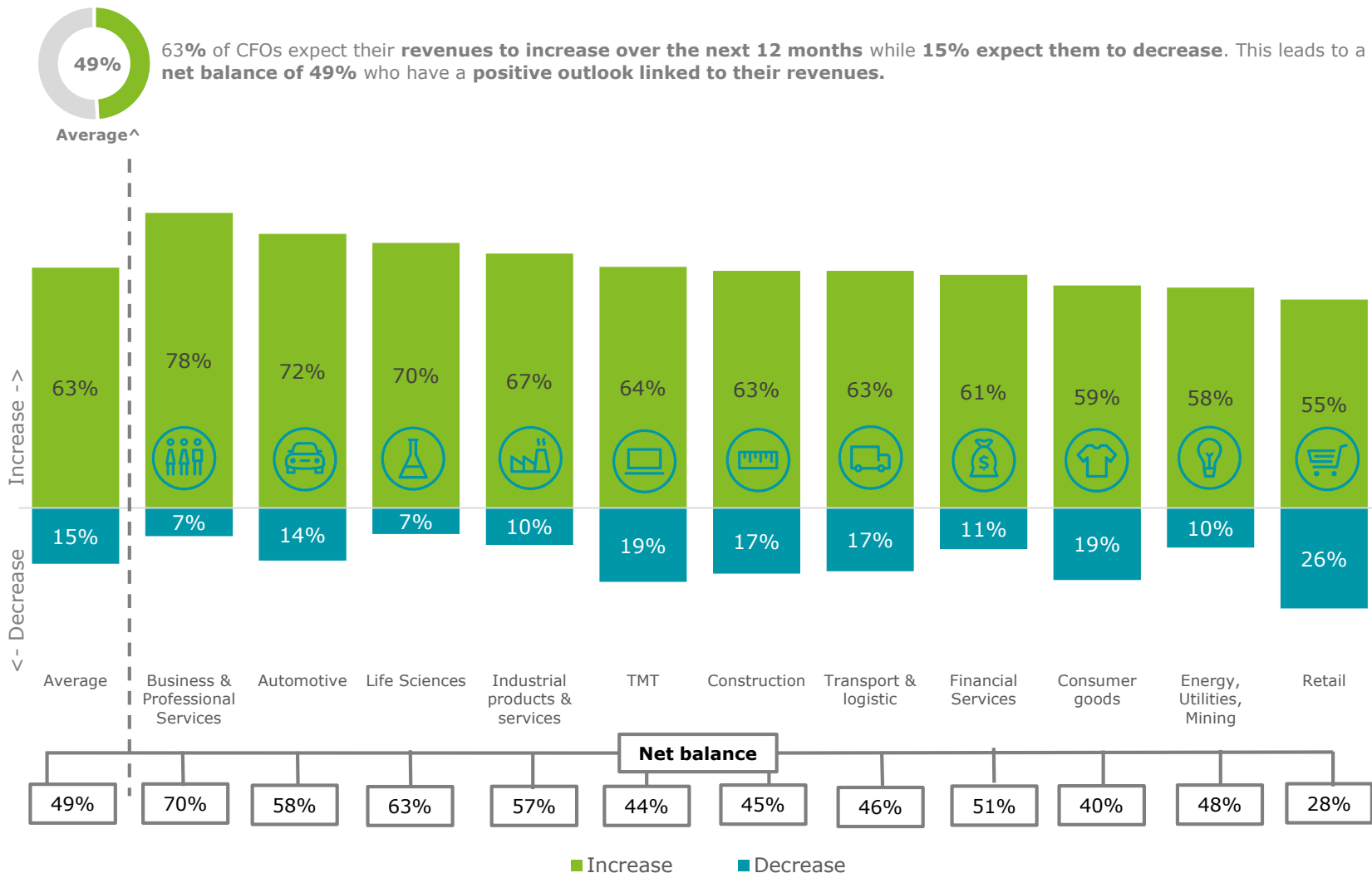
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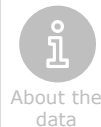
*Note: In the UK CFOs were asked, "How are capital expenditure/the outlook for hiring for UK corporates likely to change over the next 12 months?" In Finland the question specified a six-month period.

Revenue outlook

In your view, how are revenues for your company likely to change over the next 12 months?*

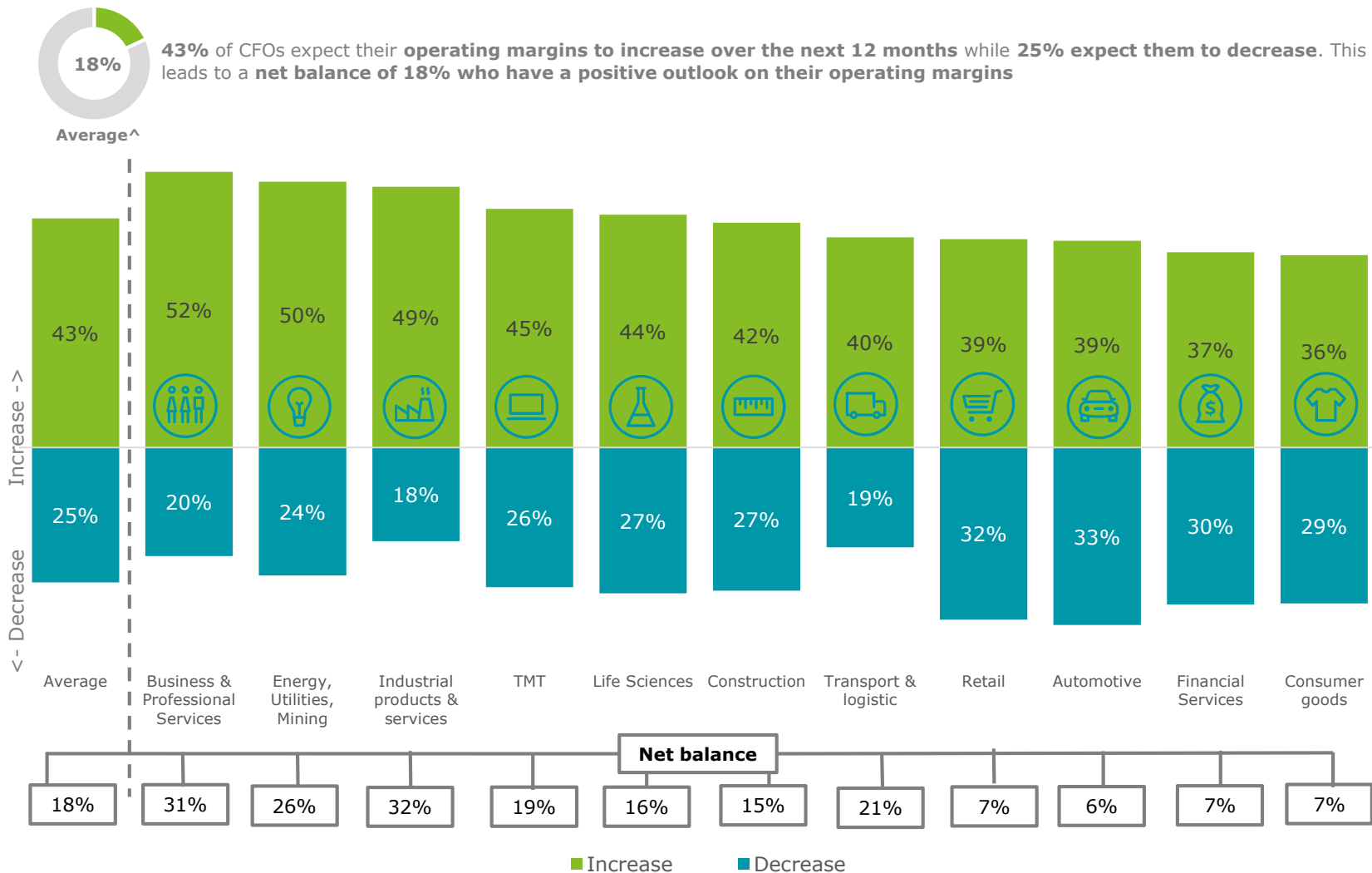


* Note: In the UK CFOs were asked "How are revenues for UK corporates likely to change over the next 12 months?".
 ^ Unweighted average calculation is based on the number of respondents who have identified their industry

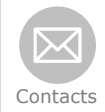
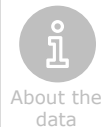


Operating margins outlook

In your view, how are operating margins for your company likely to change over the next 12 months?*

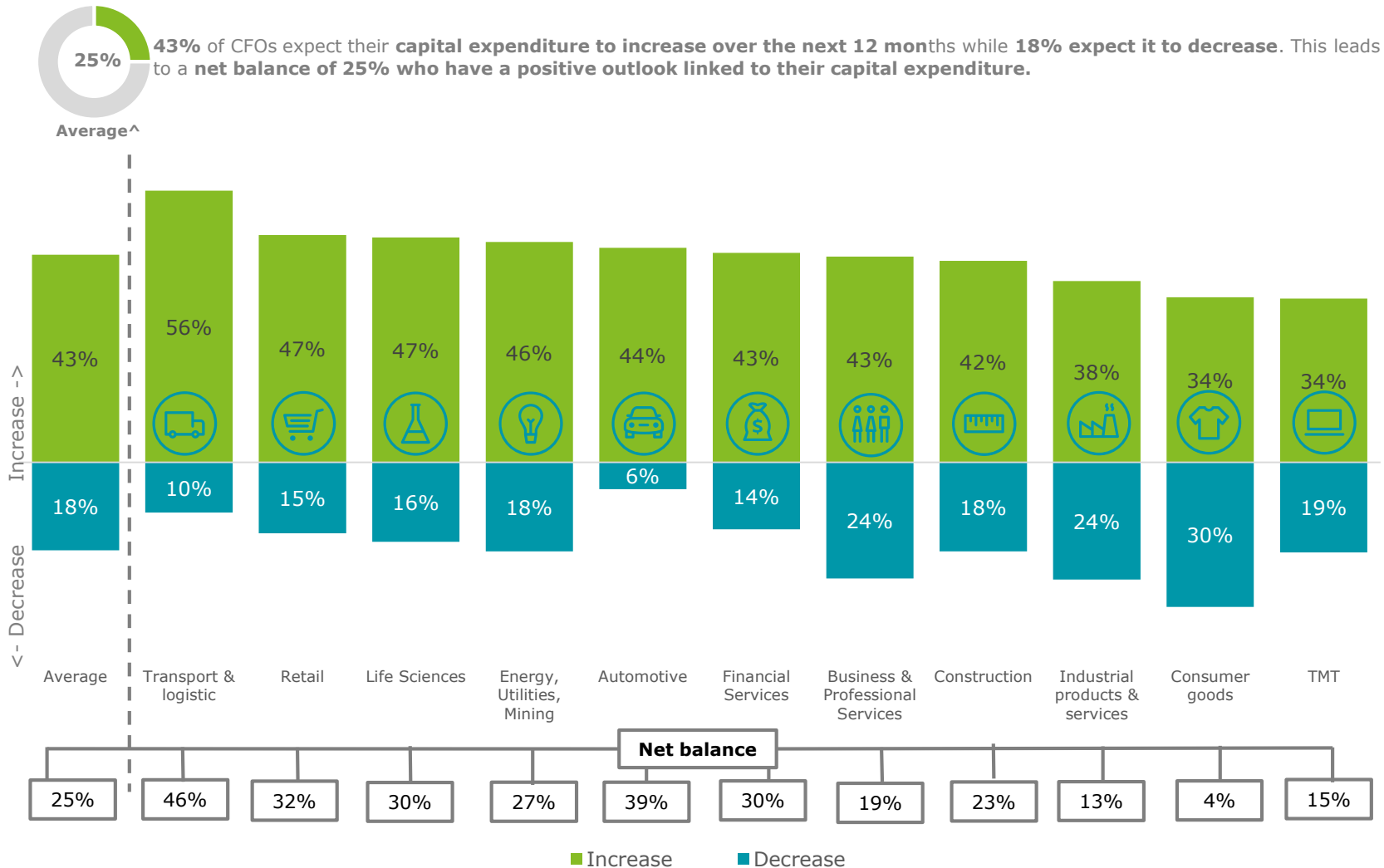


* Note: In the UK CFOs were asked "How are revenues for UK corporates likely to change over the next 12 months?".
 ^ Unweighted average calculation is based on the number of respondents who have identified their industry



Capital expenditure outlook

In your view, how are capital expenditures for your company likely to change over the next 12 months?*



* Note: In the UK CFOs were asked "How are revenues for UK corporates likely to change over the next 12 months?".

^ Unweighted average calculation is based on the number of respondents who have identified their industry



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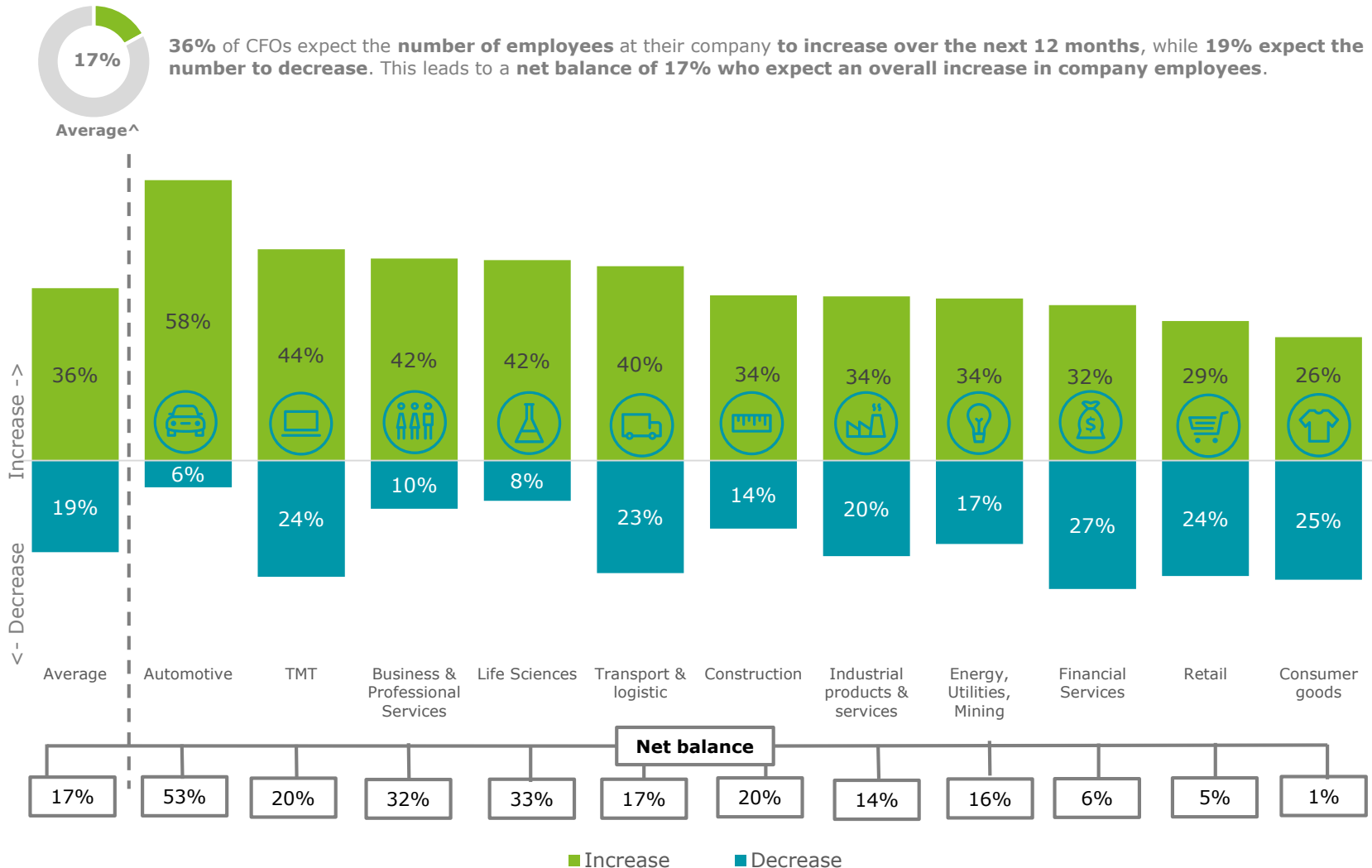


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Hiring of employees outlook

In your view, how is how is the number of employees for your company likely to change over the next 12 months?*



* Note: In the UK CFOs were asked "How are revenues for UK corporates likely to change over the next 12 months?".

^ Unweighted average calculation is based on the number of respondents who have identified their industry



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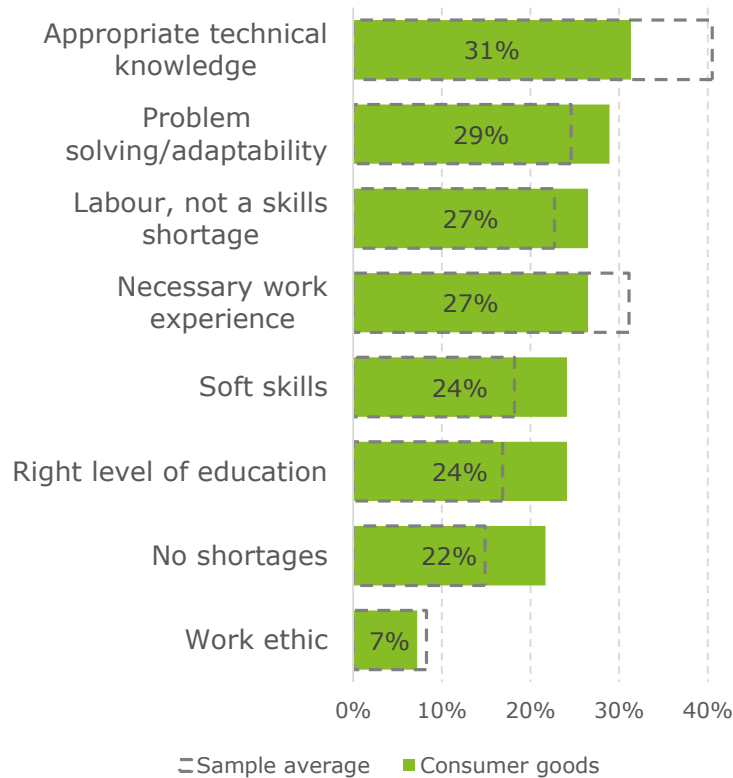
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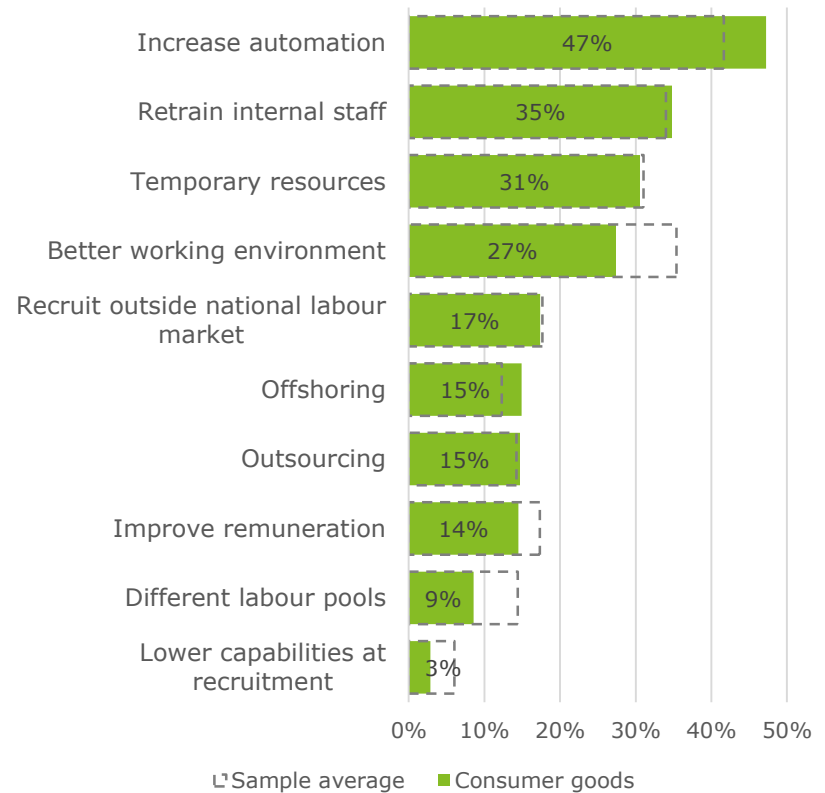
Shortage of skilled labour – Consumer goods

The proportion of CFOs considering **problem solving/adaptability** difficult skills to find is one of the highest in the sample. **Retraining of internal staff** comes immediately after automation to tackle the lack of skills.

What are currently the most difficult skills for your organisation to find?* (select all that applies)



To what extent does your organisation use the following to address shortages in (skilled) labour?*** (% to a large/very large extent)



Note: *This question was not asked in Russia and the United Kingdom.
 Note: **This question was not asked in the United Kingdom.



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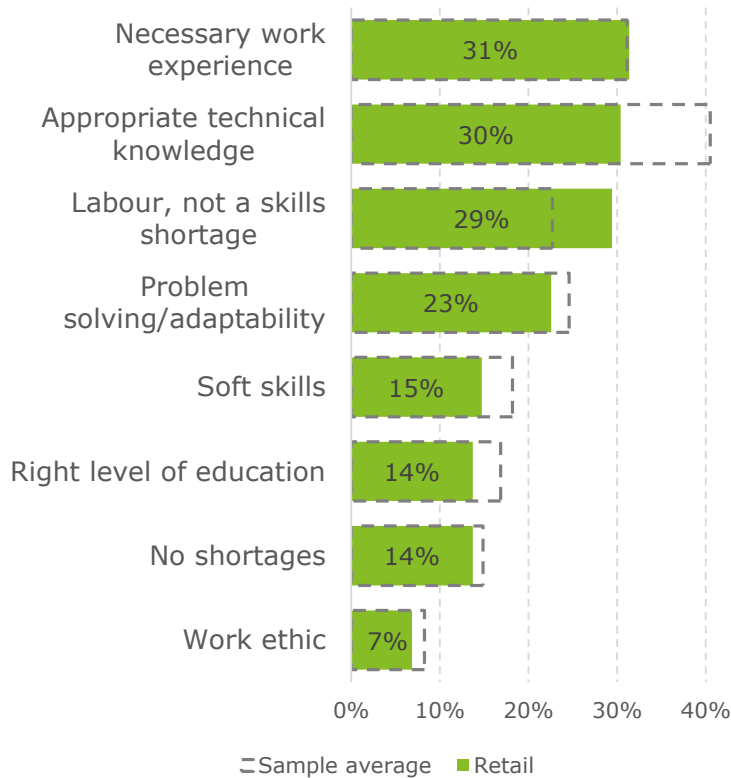
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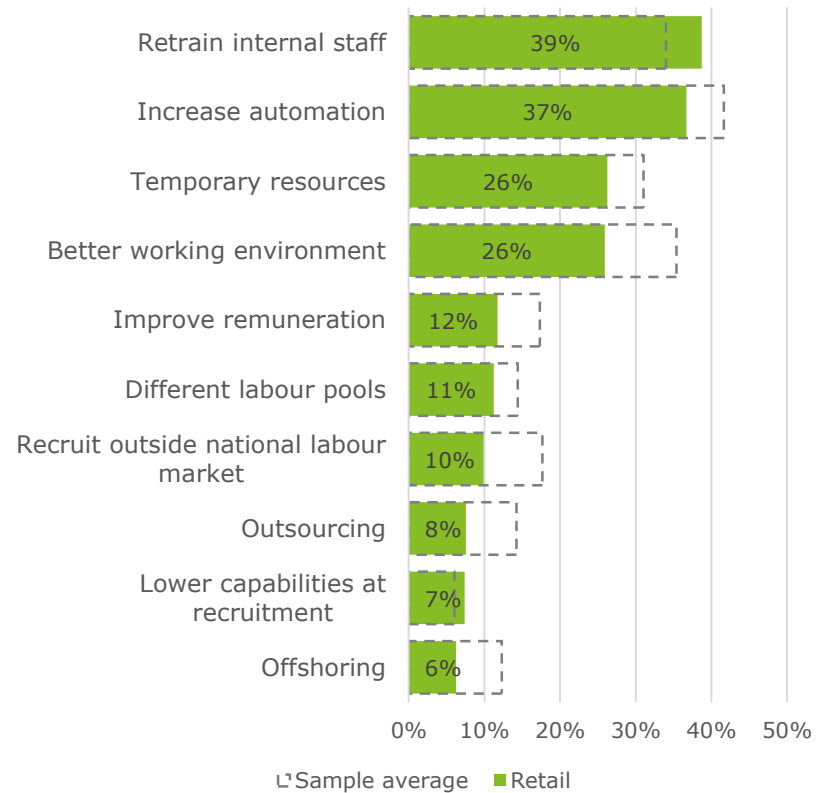
Shortage of skilled labour – Retail

CFOs in retail are the **least likely to report a lack of technical skills**. Almost 30% report to lack workers more than specific skills. **Retrain of internal staff is the strategy more often used to tackle skills shortages – ahead of automation.**

What are currently the most difficult skills for your organisation to find?* (select all that applies)



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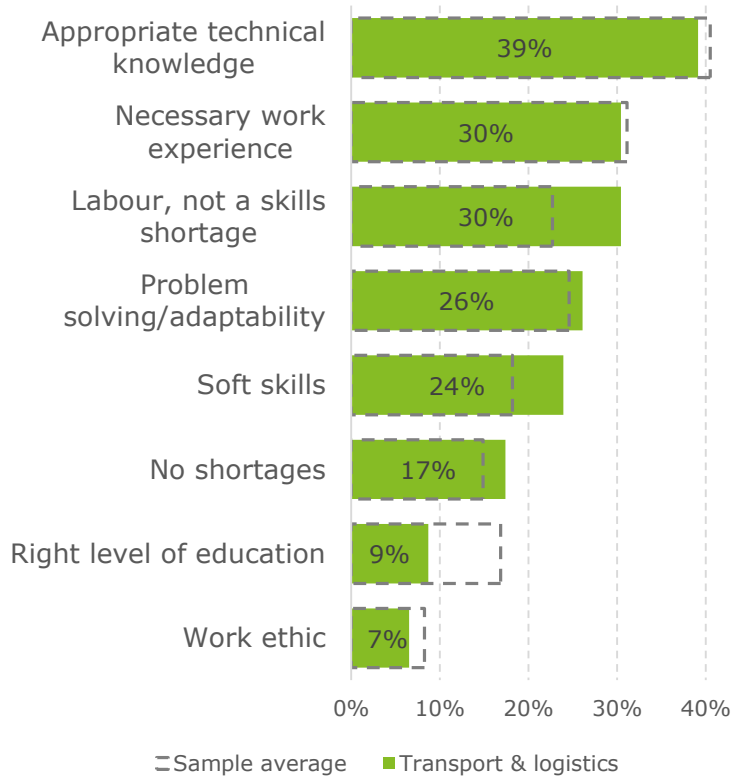
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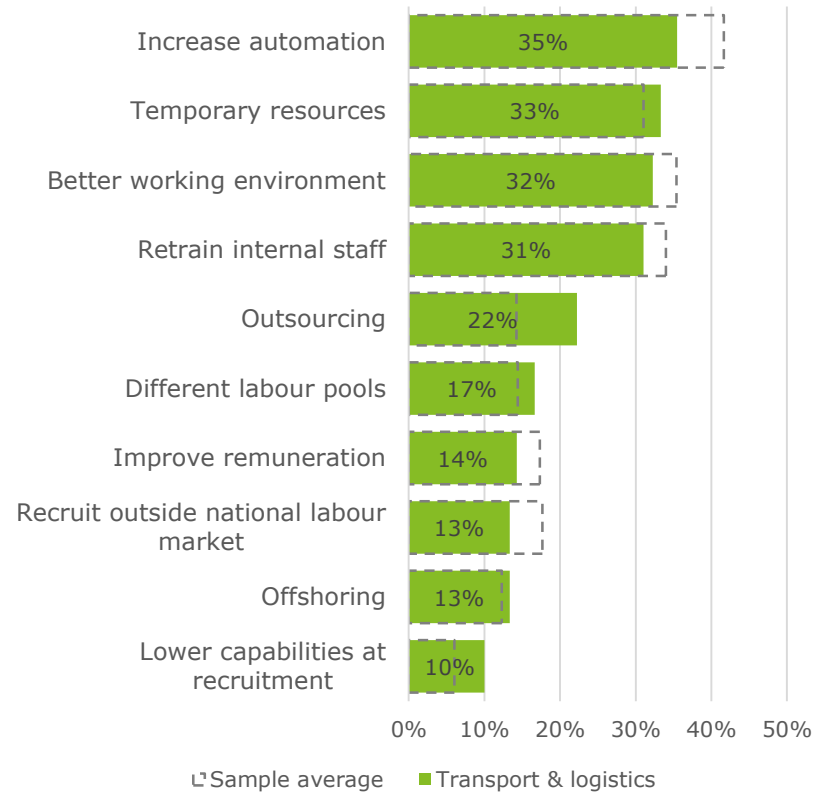
Shortage of skilled labour – Transport & logistics

The proportion of CFOs reporting a **general lack of labour** – rather than specific skills, is the highest in the sample. The use of **temporary resources** is the second most used strategy to address the shortage of skilled labour.

What are currently the most difficult skills for your organisation to find?* (select all that applies)



To what extent does your organisation use the following to address shortages in (skilled) labour?*** (% to a large/very large extent)



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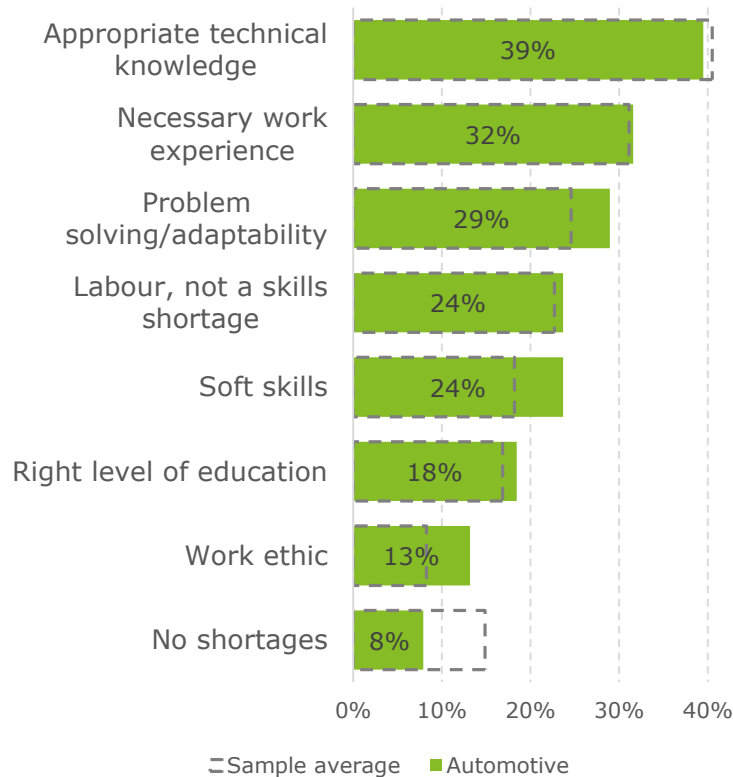
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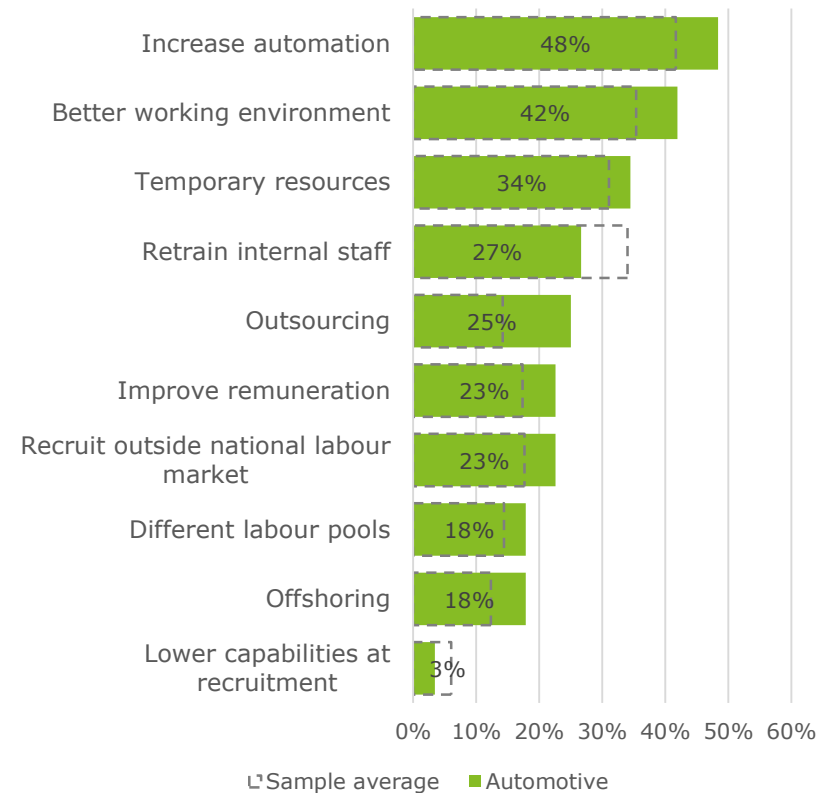
Shortage of skilled labour – Automotive

CFOs in the automotive sector are the **least likely to report retraining internal staff** as strategy to address skills shortages. One out of four addresses the issue via **outsourcing** – the highest share across all sectors.

What are currently the most difficult skills for your organisation to find?* (select all that applies)



To what extent does your organisation use the following to address shortages in (skilled) labour?*** (% to a large/very large extent)



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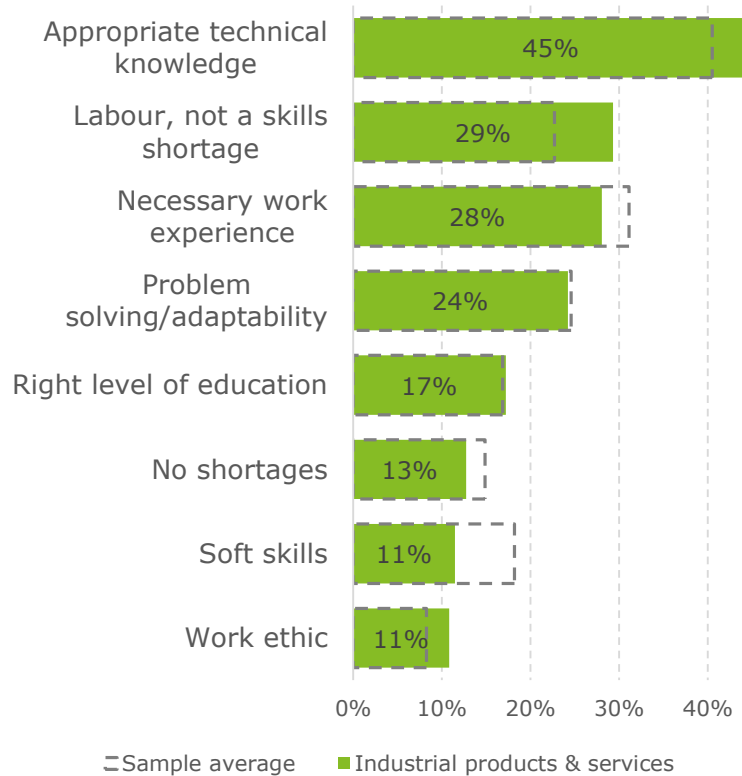
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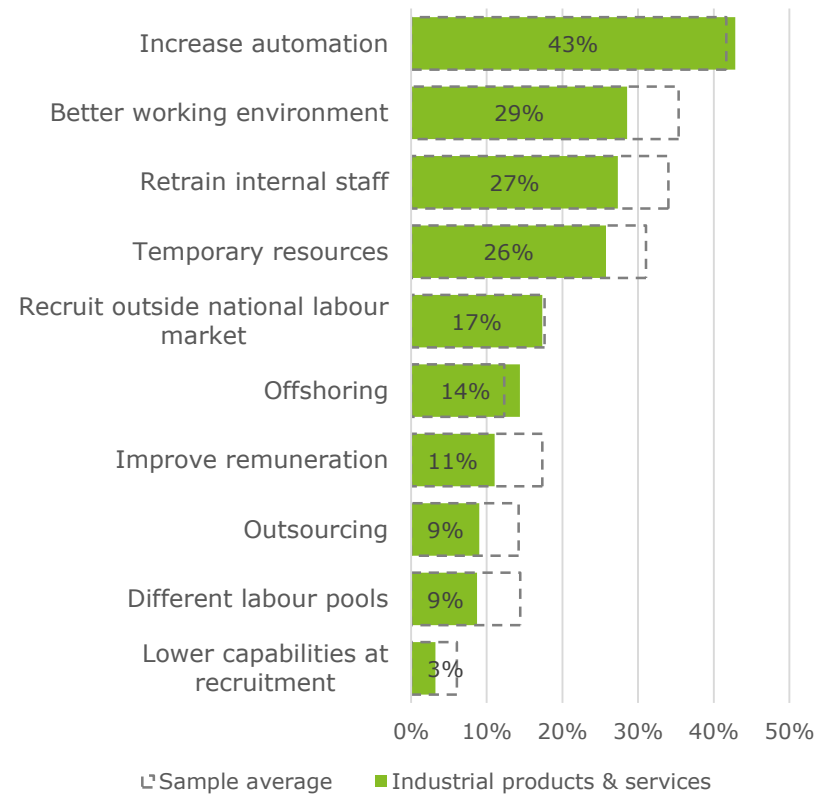
Shortage of skilled labour – Industrial products & services

CFOs report difficulties in finding workers with the **appropriate technical knowledge** more often than in other sector. However, **also a general lack of labour** is a major concern in this sector, with the second highest proportion across industries naming this factor.

What are currently the most difficult skills for your organisation to find?* (select all that applies)



To what extent does your organisation use the following to address shortages in (skilled) labour?*** (% to a large/very large extent)



Note: *This question was not asked in Russia and the United Kingdom.
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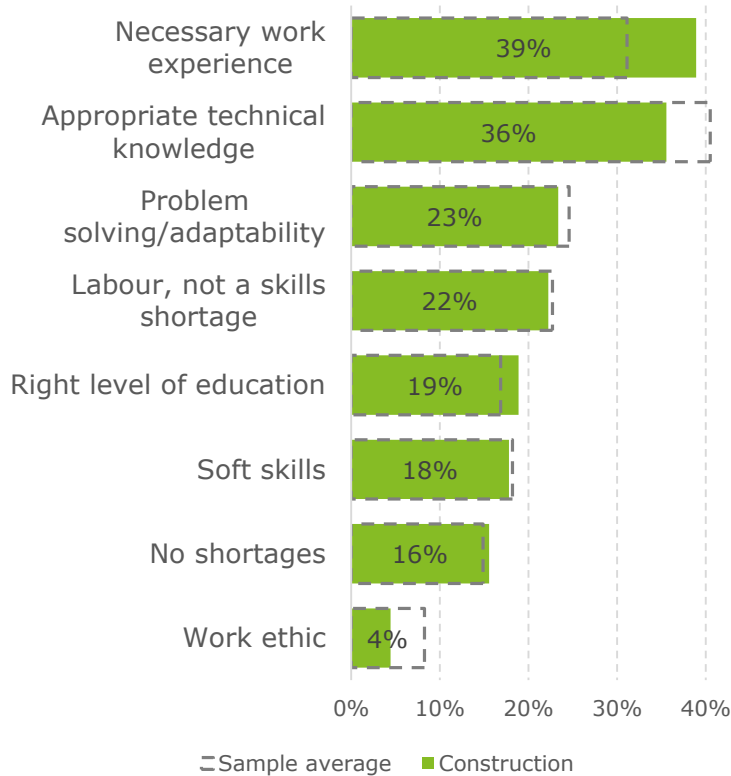
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Shortage of skilled labour – Construction

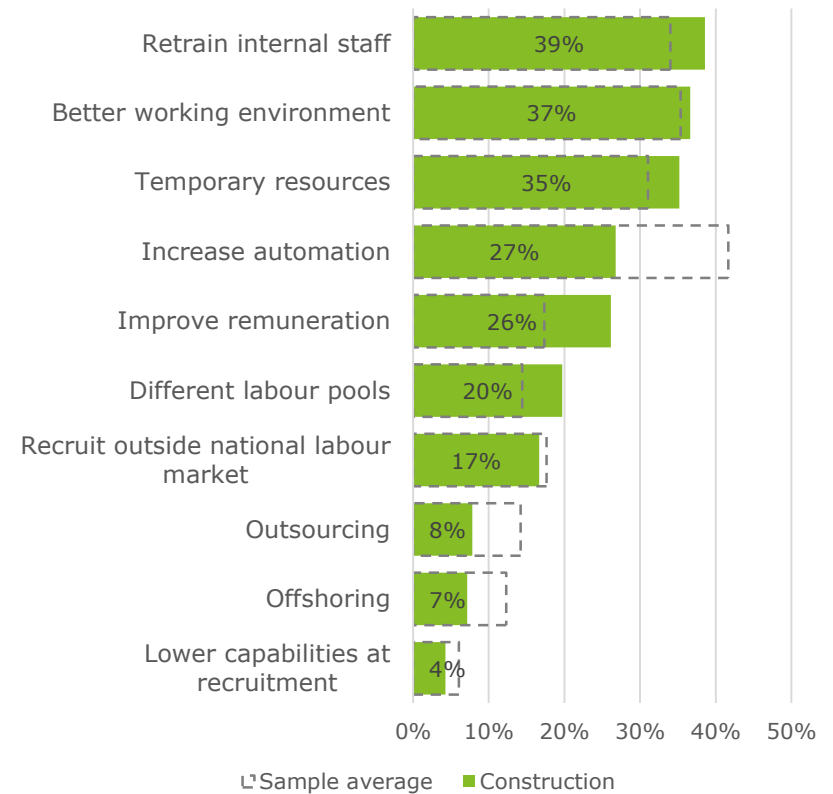
CFOs in the construction industry are the **least likely to report an increase in automation** to address skills shortages. **Retraining internal staff** is the most widely used strategy in the industry.

What are currently the most difficult skills for your organisation to find?* (select all that applies)



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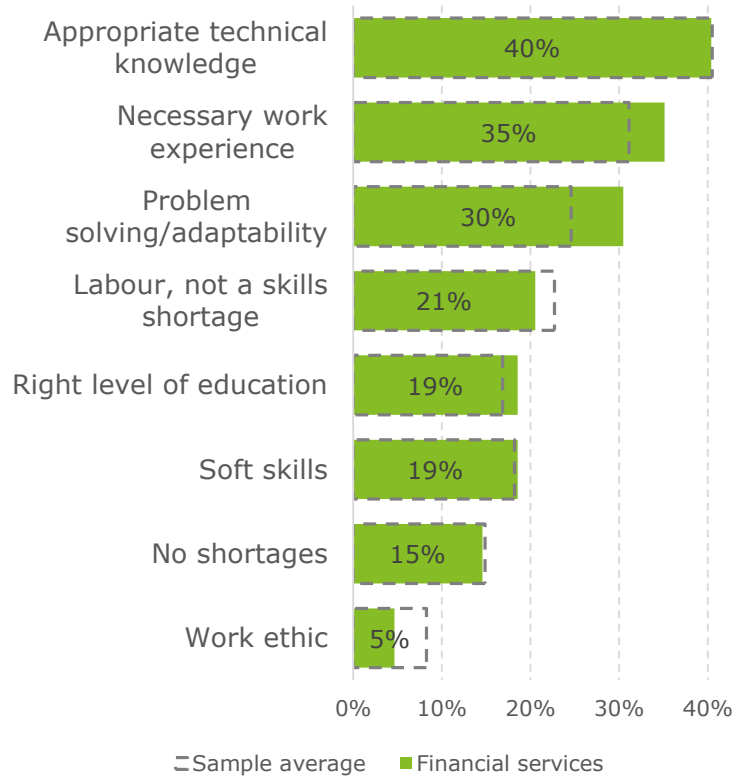
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Shortage of skilled labour – Financial services

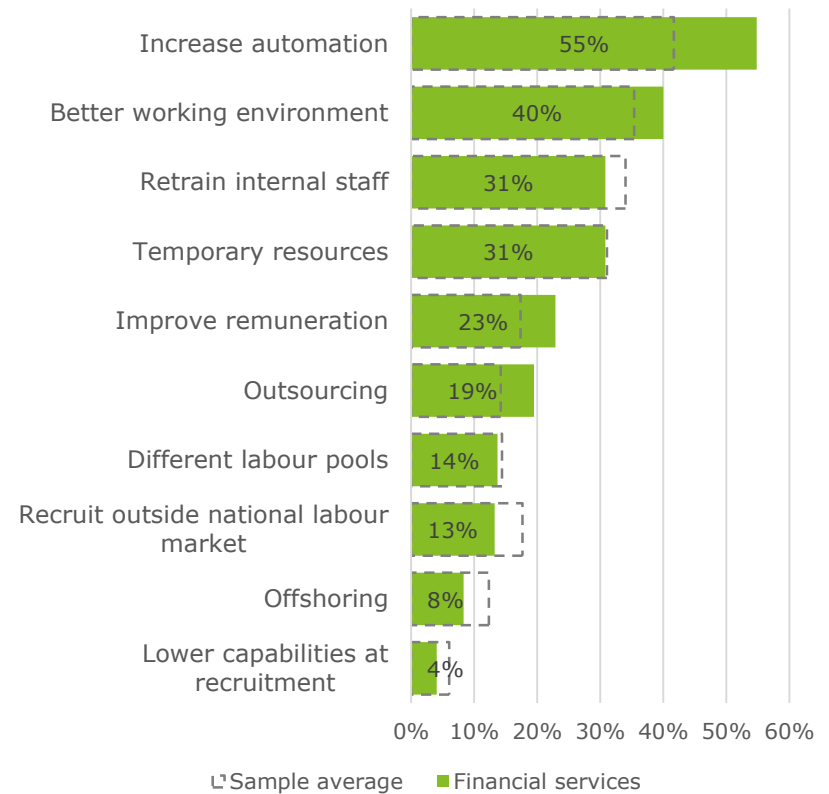
CFOs in financial services are **pressing forward with automation** to address skills shortages more than in other industries.

What are currently the most difficult skills for your organisation to find?* (select all that applies)



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To what extent does your organisation use the following to address shortages in (skilled) labour?*** (% to a large/very large extent)



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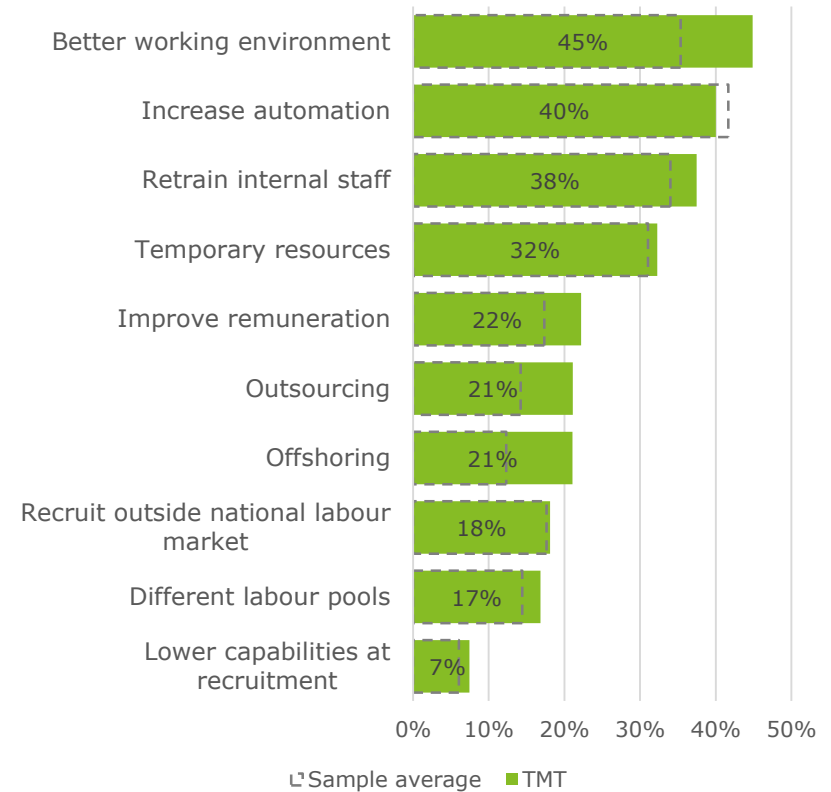
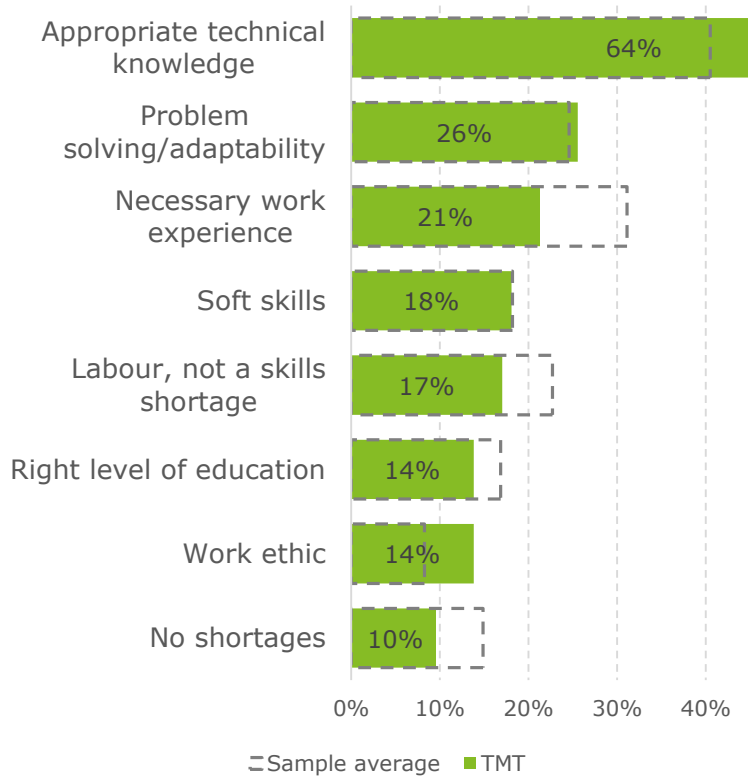


Shortage of skilled labour – Technology, media & telecommunications

The proportion of CFOs reporting **technical skills** as the most difficult to find is the highest share across all industries. Although offering an **attractive work environment** is the strategy most extensively adopted, one out of five CFOs use **offshoring** to address skills shortages– the highest proportion across all industries.

What are currently the most difficult skills for your organisation to find?* (select all that applies)

To what extent does your organisation use the following to address shortages in (skilled) labour?*** (% to a large/very large extent)



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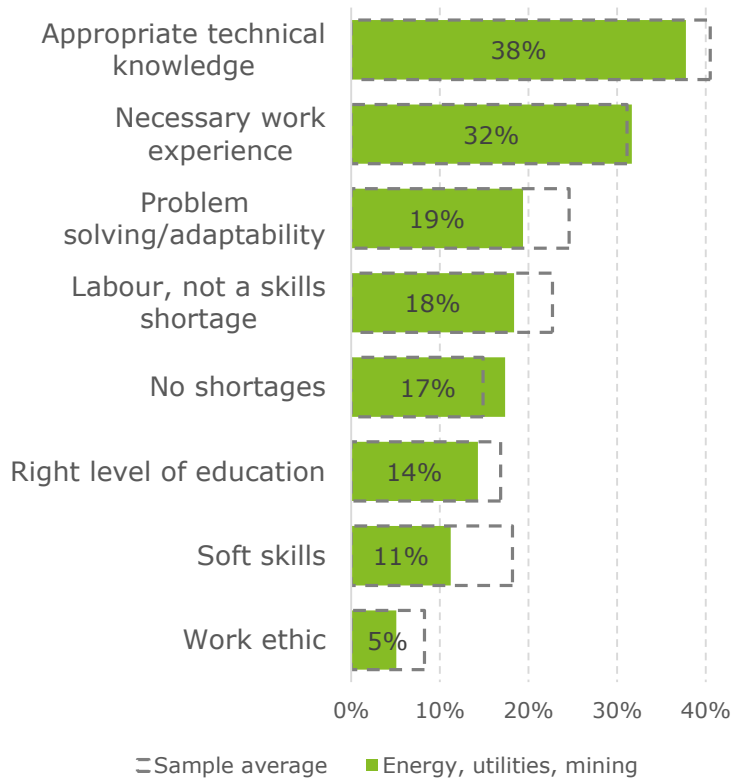
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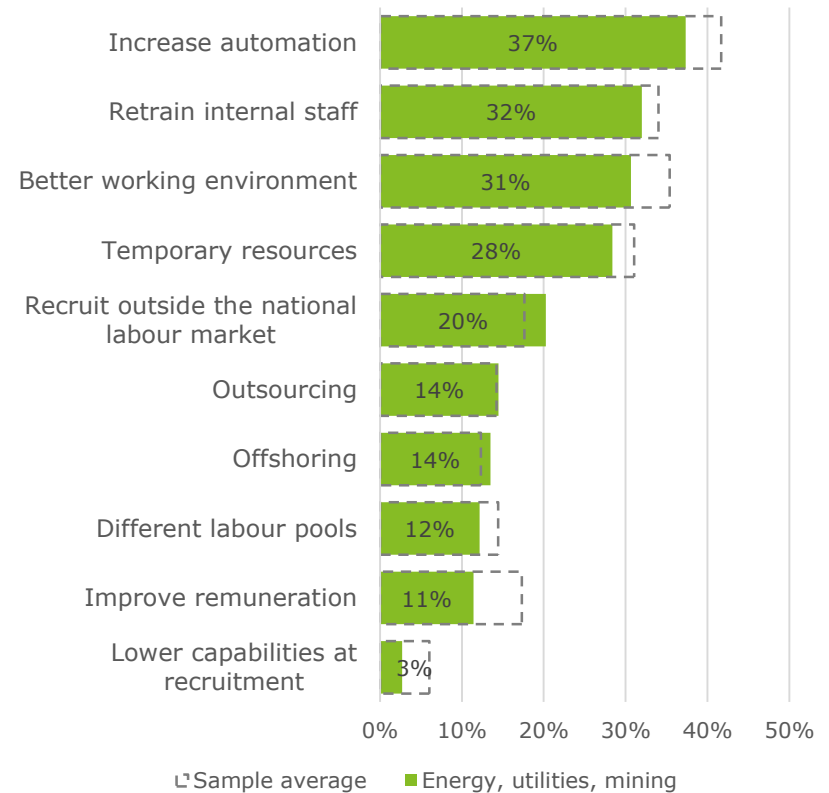
Shortage of skilled labour – Energy, utilities, mining

CFOs in this industry are the **least likely** to report difficulties in finding workers with the required **soft skills**.

What are currently the most difficult skills for your organisation to find?* (select all that applies)



To what extent does your organisation use the following to address shortages in (skilled) labour?*** (% to a large/very large extent)



Note: *This question was not asked in Russia and the United Kingdom.
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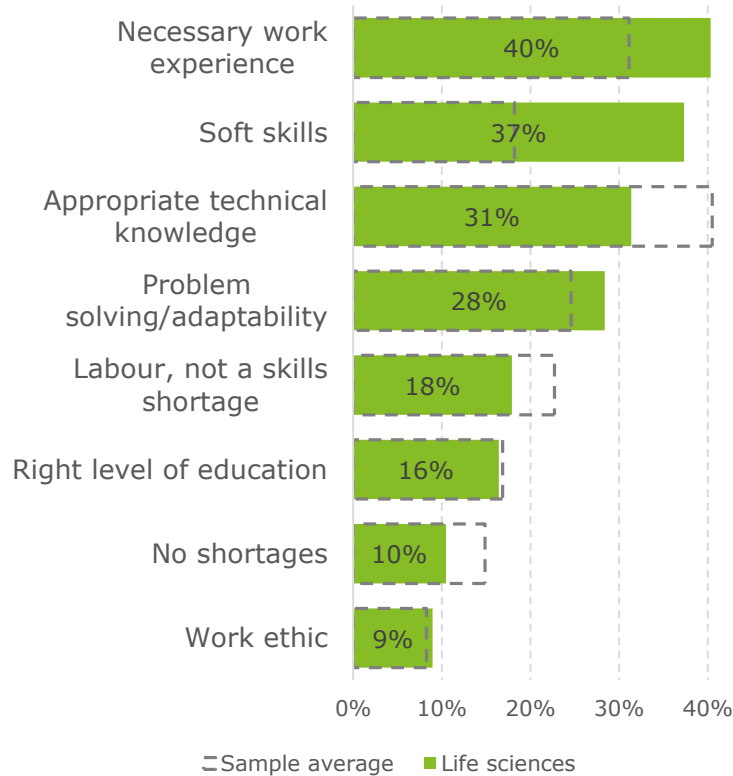
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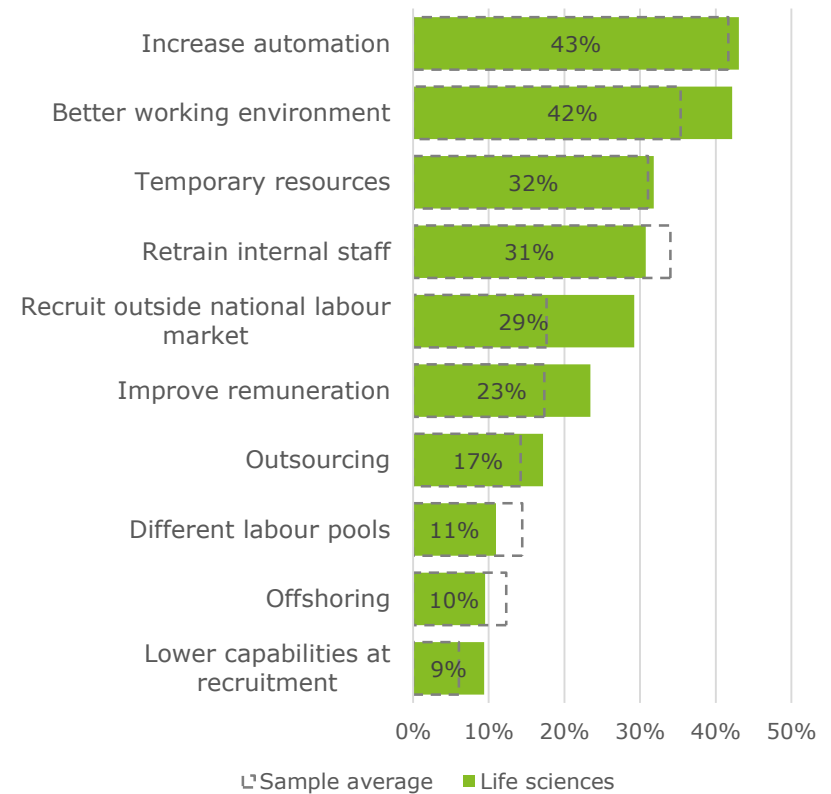
Shortage of skilled labour – Life sciences

More than one third of CFOs in this industry report difficulties in finding workers with the required **soft skills** – the **highest proportion** in the whole sample. CFOs in this industry are the **most likely** to look **outside the national labour market** to address the issue.

What are currently the most difficult skills for your organisation to find?* (select all that applies)



To what extent does your organisation use the following to address shortages in (skilled) labour?*** (% to a large/very large extent)



Note: *This question was not asked in Russia and the United Kingdom.
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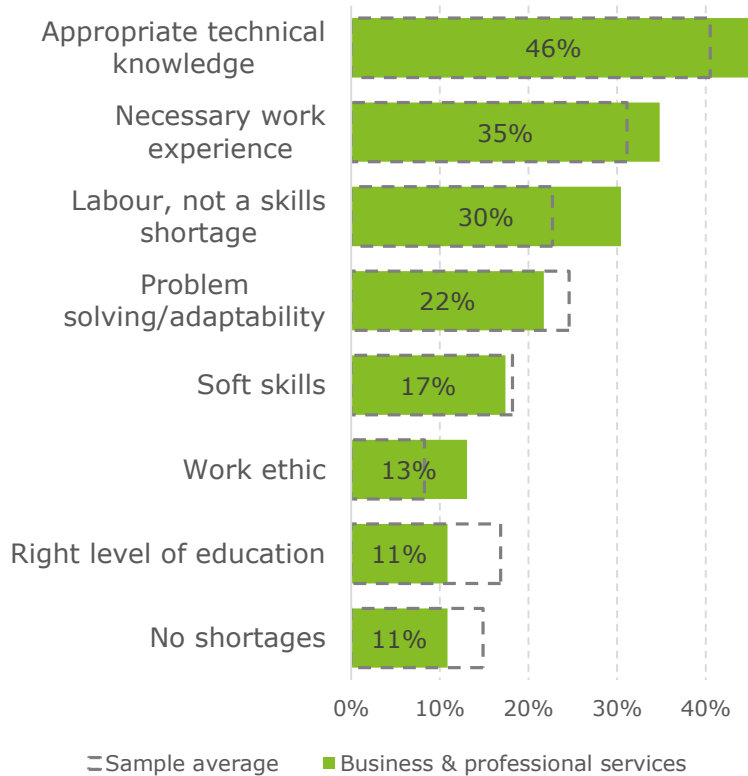
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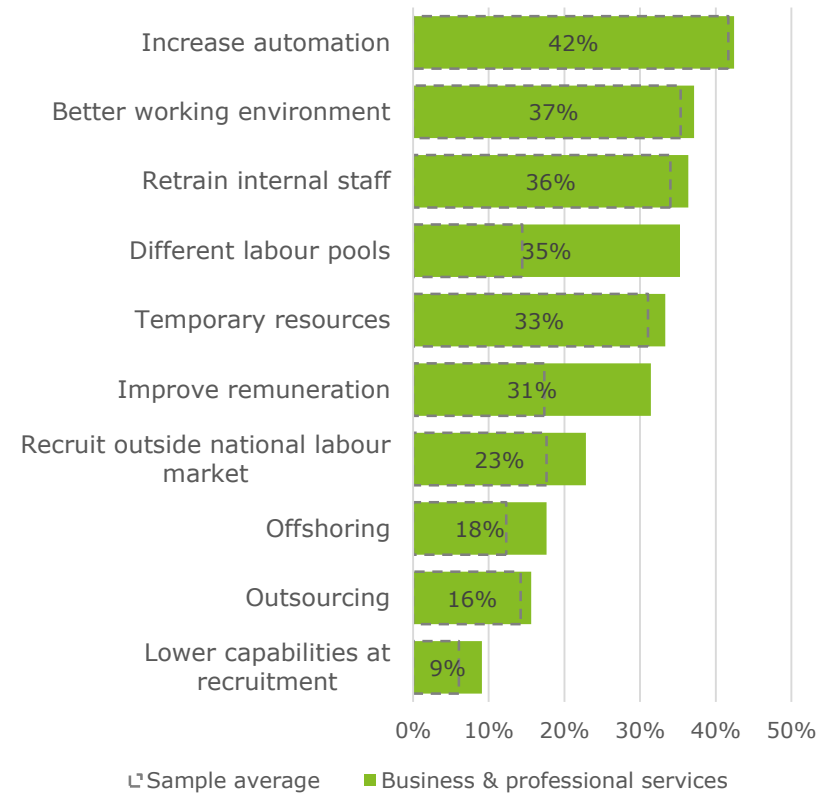
Shortage of skilled labour – Business & professional services

CFOs in this industry are the **most likely to look at different labour pools** to address the shortage of skills.

What are currently the most difficult skills for your organisation to find?* (select all that applies)



To what extent does your organisation use the following to address shortages in (skilled) labour?*** (% to a large/very large extent)



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