



CFO Signals™

What North America's top finance executives are thinking – and doing

High-Level Report

2nd Quarter 2012

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CFO Signals

About the CFO Signals survey

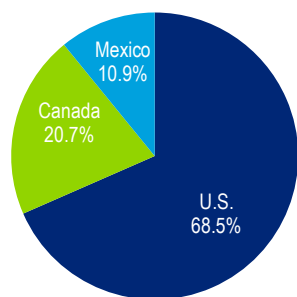
Each quarter, *CFO Signals* tracks the thinking and actions of CFOs representing many of North America's largest and most influential companies. This report summarizes CFOs' opinions in five areas: economy, industry, company, finance organization, and career.

This is the second quarter report for 2012. For more information, please see the methodology section at the end of this document or contact nacfosurvey@deloitte.com.

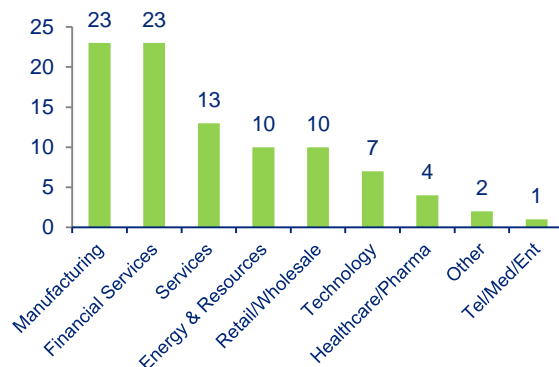
Who participated this quarter?

Ninety-three CFOs responded during the two weeks ended May 29. Three fourths are from public companies, and over 77% are from companies with more than \$1B in annual revenue.

Participation by Country



Participation by Industry



IMPORTANT NOTES ABOUT THIS SURVEY REPORT:

All participating CFOs have agreed to have their responses aggregated and presented.

Please note that this is a "pulse survey" intended to provide CFOs with quarterly information regarding their CFO peers' thinking across a variety of topics. It is not, nor is it intended to be, scientific in any way, including in its number of respondents, selection of respondents, or response rate, especially within individual industries. Accordingly, this report summarizes findings for the surveyed population but does not necessarily indicate economy- or industry-wide perceptions or trends. Except where noted, we do not comment on findings for segments with fewer than five respondents. Please see the Appendix for more information about survey methodology.

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Additional findings available in full report

(please contact nacfosurvey@deloitte.com for full report)

- Detailed findings (by industry)
- Industry-by-industry summaries
- Country-by-country summaries

Results at a Glance

Economy

What high-impact risk worries you the most? Nearly half of all CFOs mention either U.S. or global economic conditions as their most worrisome risk, and about three quarters of those specifically cite European conditions. About 20% cite governmental and regulation-related issues. Internal worries continued to rise this quarter, led mostly by concerns about competitive pressures, declining sales volume, and missed financial targets. **Page 8.**

What are your company's top three economy challenges? In the U.S., unemployment concerns rose sharply to 58% and social policy concerns declined to 50%. Canadian CFOs cite mostly environmental policy (63%) and capital cost/availability (42%), while Mexican CFOs mostly cite social policy (70%). **Pages 9-10.**

How do you think the national debt should be tackled? About 60% of U.S. CFOs advocate substantial spending cuts, but 30% prefer to freeze spending or hold off on major cuts (while formalizing a long-term plan). One third of U.S. CFOs prefer to leave taxes unchanged while substantially cutting spending, but nearly 30% prefer raising taxes and substantially cutting spending simultaneously. **Page 11.**

How are you addressing the coming year-end "fiscal cliff" of pending tax increases and spending cuts? About two thirds of CFOs say they are not reacting at all, and the remaining third are split when it comes to accelerating and decelerating their investments, hiring, and transactions. **Page 11.**

Industry

What are your company's top three industry challenges? Pricing trends take over the top spot this quarter at 48%, displacing the eight-time top challenge, industry regulation/legislation (which is still at 46%). Market contraction and availability of people/skill sets round out the top three, tied at 29%. Concerns about overcapacity and excess inventory continue to rise. **Page 12.**

Company

What are your company's top three company-specific challenges? Revenue growth from existing markets (steady at 60%), talent (up 7 points to 41%), and prioritizing investments (steady at 32%) remain the top three challenges. **Page 13.**

What is your company's business focus for the next 12 months? Revenue growth declined from 57% to 52% (34% for existing markets and 18% for new markets). Indirect costs and direct costs held relatively steady at 12% and 15%, respectively. The focus on fixed asset efficiency held steady at about 10%, but the focus on working capital climbed to 9%. **Page 14.**

Compared to the past 12 months, how do you expect your performance, spending, and hiring to change over the next 12 months? Sales growth expectations increased to 6.6%*, up from last quarter's survey-low 5.9%*. Earnings growth is still expected to exceed sales growth, but with a slower growth rate of 10.5%* (versus an expected 12.8%* last quarter). Domestic hiring growth held steady at 2.1%, while offshore personnel (3.8%*) and outsourcing (3.6%*) growth came in higher. Capital investment growth expectations receded this quarter to 11.4% but are still among the highest we have seen over the past two years. **Pages 15-16.**

*All numbers with an asterisk are averages that have been adjusted to eliminate the effects of stark outliers.

How does your optimism regarding your company compare to last quarter? In the U.S., net optimism (the spread between those more and less optimistic) took another hit this quarter and now sits at zero. Sentiment is better in Canada and Mexico, but continental net optimism still fell from +48 points last quarter to +11 this quarter. Overall, 39% of CFOs report a more positive outlook and 28% report rising pessimism (33% report no change). **Page 17.**

Can your earnings growth outpace your sales growth? This is the ninth consecutive quarter in which CFOs' expected year-over-year earnings growth has exceeded their expected revenue growth. But of the 52% of CFOs expressing this expectation this quarter, just 41% expect it to hold for more than another year. **Page 18.**

What steps are you taking to strengthen margins? More than 80% of CFOs say their companies have taken steps to reduce direct and indirect costs through process efficiency gains. More than half say they have reduced their focus on lower-margin businesses and/or lower-margin customers, and a remarkable two thirds say they have raised prices. **Page 19.**

Finance Organization

What are your finance organization's top three challenges? Providing metrics/info/tools for business decisions remains the top challenge at 50%. Influencing business strategy and operational priorities rose from 32% to 39%, and ensuring business initiatives achieve desired outcomes rose to notably to 34%. Supporting a major transaction (e.g. merger, acquisition, or divestiture) dropped sharply from 27% to 14%. **Page 20.**

What pricing activities does your finance organization perform? Three fourths of CFOs say their finance organizations are at least moderately involved in tracking and reporting pricing performance and profitability. More than half of also report substantial involvement in aligning pricing strategies with corporate strategies, managing exceptions to general policies, and setting pricing based on data and analytics. **Page 21.**

What levels of profitability analysis does your company utilize? Consolidated/business-level analysis is utilized by 98% of companies with a strong influence on compensation, operating spend, and investment decisions. Product/service-level analysis is utilized by 88%, mostly for pricing and investment decisions. Customer-level profitability is comparatively less utilized and influential. **Page 22.**

Career

What are your top three job stresses? Major change initiatives are again the dominant CFO job stress at 47%. Changing regulatory requirements are second at 39%, with pressures from poor company performance rising notably to third at 38%. Insufficient support staff rose to nearly 30%, while strategic ambiguity continued its three quarter decline. **Page 23.**

What factors are most important in selecting a successor? Well over half of CFOs say personal compatibility with the CEO is a top factor. Internal relationship-building expertise is next at 46%, while experience in FP&A and a strategy development background tied at 30%. **Page 24.**

How are you allocating your personal investments? CFOs appear cautious when it comes to equities and bonds. While CFOs do hold these instruments, they indicate a roughly equal preference for cash. About 40% indicate a preference for stocks over bonds, with 26% preferring bonds and the rest indifferent. About 60% of the stock focus is on domestic stocks. **Page 25.**

Summary

With still more macro uncertainty and volatility, companies are turning toward what they can control

Last quarter's comparative reprieve from terrible news about Europe and the broader global economy yielded a substantial rise in CFO optimism – although this is not saying much given the two quarters of dismal CFO sentiment we saw in last half of 2011. CFOs were still voicing strong concerns, however, about slow growth at home, government stagnation – especially going into an election year in the U.S. – and the potential for renewed global economic volatility.

This quarter's resurgence of both uncertainty and bad news confirmed their fears. Recent and upcoming national elections in Europe, combined with approaching national elections in the U.S. and Mexico, are further obscuring the direction of government policy. Economic performance measures in most regions have soured, Europe's (and the euro's) future has become even less certain, and equity markets have tumbled again. Not surprisingly, CFOs' optimism gains were mostly erased this quarter – especially in the U.S.

One bright spot up until now has been corporate performance, which has held up quite well despite volatile conditions. But this quarter's survey puts even that in question. While CFOs' projections for year-over-year earnings growth continue to outpace their projections for sales growth – implying that efficiency gains and improved business focus can largely make up for slow revenue growth – this quarter's findings indicate that only one in three CFOs believes their company can sustain this dynamic for more than another year.

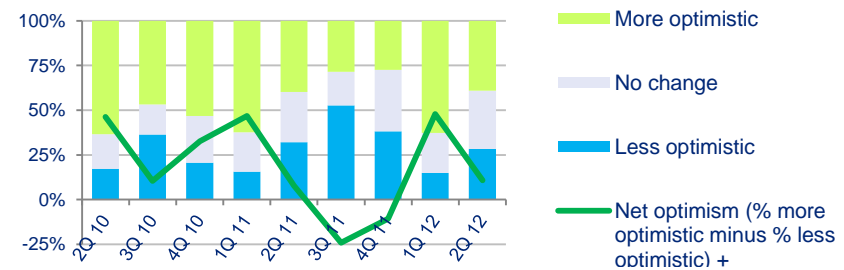
Monitoring the big picture; managing the small picture

Macroeconomic conditions are providing a difficult backdrop for business decisions. CFOs say they are increasingly worried about a spread of European financial distress to North American banks and a resulting deterioration of capital availability. Especially in the U.S., they are becoming even more worried about slowing economic growth and unrelenting unemployment, and even more frustrated by uncertainties resulting from election-year gridlock and the return of national debt issues.

These worries and frustrations appear to be driving companies to hunker down and focus more on industry- and company-level issues where they have more control. As high unemployment drives rising customer demand concerns, companies are working to address overcapacity, pricing trends, and new competitive tactics. Many are focusing less on new markets and more on working capital, inventories, and further efficiency gains.

As they continue to find ways to further bolster performance, there is still no denying that CFOs remain worried. That explains why CFOs' optimism took

Own-Company Optimism
CFO optimism relative to previous quarter



another hit this quarter – admittedly much more in the U.S. than in Canada and Mexico. After two quarters firmly in the red (-24 percentage points in 3Q11 and -9 in 4Q11), net optimism for the continent turned positive again last quarter at +48. While it is still positive at +11, U.S. net optimism now sits at zero.

Earnings still outpacing revenues – for now

Despite their worries, CFOs continue to project improving company performance. Sales growth rebounded from a survey-low 5.9%* last quarter to 6.6%* this quarter, but with very high variability. And after climbing to 12.8%* last quarter, earnings growth receded to 10.5%* – 12.3%* for the U.S. (down from 14.5%*), 11.7%* for Mexico (down from 15.8%*), and just 4.6%* for Canada (down from 6.9%*) – also with very high variability.

This is the ninth consecutive quarter where CFOs' expected earnings growth has outpaced revenue growth, and recent strength of corporate earnings seems to validate their past perceptions. This quarter we dug deeper into how companies have been doing it.

CFOs say their companies have been bolstering margins through both strategic and tactical shifts. More than half say they have reduced their focus on lower-margin businesses and/or lower-margin customers, and a remarkable two thirds say they have raised prices. The most common approaches, however, reflect operational blocking and tackling, with more than 80% of CFOs citing a heavy focus on improving process efficiencies in both indirect and direct cost areas.

But how long can these gains make up for slow growth? Of this quarter's 52% of CFOs expecting year-over-year earnings growth to exceed sales growth, just 41% said the same would be true beyond a year from now.

* All numbers with an asterisk are averages that have been adjusted to eliminate the effects of stark outliers.

+ Note that net optimism, as calculated, does not explicitly account for the level of "no change" responses.

Summary

Investment holding up; hiring positive but muted

For the time being, though, companies do not appear to be backing off on their capital investments and hiring. Capital investment growth expectations receded this quarter to 11.4% but are still among the highest we have seen over the past two years. The driver appears to be a continued focus on business growth, with CFOs saying that about half of their companies' business focus is now on revenue growth and that two thirds of that growth focus is directed toward existing markets.

Hiring growth expectations remain positive but modest. Having risen from 1.0%* in the fourth quarter of last year to 2.1%* last quarter, estimates held steady this quarter. But companies continue to struggle in finding the right skill sets, and talent-related challenges are now the number three industry-level challenge and the number two company-level challenge. Finance organizations are feeling the effects with 25% of CFOs citing trouble finding and retaining finance talent and 30% citing insufficient support staff.

Pushing pricing

Pricing management may be one of the brightest spots in companies' continued strong performance. With slow growth putting heavy pressure on sales volume, many companies have turned toward very aggressive pricing management – and with very good results. Fueled by improved understanding of pricing sensitivities and profitability at regional, product/service and customer levels, companies have often been able avoid deep discounts and price wars that might have made matters worse.

Central to this effort have been finance organizations that have moved beyond the pricing basics of tracking and reporting, managing exceptions, and enforcing policies. Many are now driving the alignment of pricing approaches with corporate strategies and helping business units get the most out of customer-specific investments – especially within industries like manufacturing, retail/wholesale and financial services.

Different ideas about the U.S. national debt and “fiscal cliff”

The long-term costs of national debt are a clearly a concern for CFOs, but even if they could take the national debt into their own hands, it appears their solutions would vary considerably. About 60% of U.S. CFOs advocate substantial spending cuts, but 30% prefer to freeze spending or hold off on

major cuts (while formalizing a long-term plan). Moreover, one third of U.S. CFOs prefer to leave taxes unchanged while substantially cutting spending (and 5% think taxes should be lowered), but nearly 30% prefer raising taxes and substantially cutting spending simultaneously (presumably to speed deficit reduction), and 8% prefer to raise taxes while only freezing spending.

Whatever their preferred solution, U.S. CFOs are facing a federal “fiscal cliff” of pending tax increases and spending cuts at year-end, and a lack of clarity around what will happen appears to be driving differing conclusions about how to respond. About two thirds of CFOs say they are not reacting at all to the possibility of spending and tax changes, and the remaining third are split when it comes to accelerating or decelerating their investments, hiring, and transactions.

CFOs' own money

One area CFOs have complete control over is their own investment portfolio. So what exactly are CFOs doing with their own money? Despite strong corporate performance and historically modest equity valuations, CFOs appear cautious when it comes to equities and bonds. While CFOs do hold these instruments, they indicate a roughly equal preference for cash – a possible sign that, like their companies, they value the security and flexibility cash provides. About 46% of CFOs indicate a preference for stocks, and 25% prefer bonds (the rest are indifferent), and about 60% of the stock focus is on domestic stocks versus just 20% for foreign.

Focus on the softer skills

CFOs say they are playing broader and more strategic roles, and that their success is increasingly determined not by their technical competency or industry knowledge, but by their ability to work with others and contribute to strategy development. Specifically, and regardless of industry, CFOs say personal compatibility with the CEO is the most important trait for their successor, and ability to develop internal relationships is second. Experience around financial and strategic planning is next, with industry experience, ownership type, and audit experience finishing at the bottom.

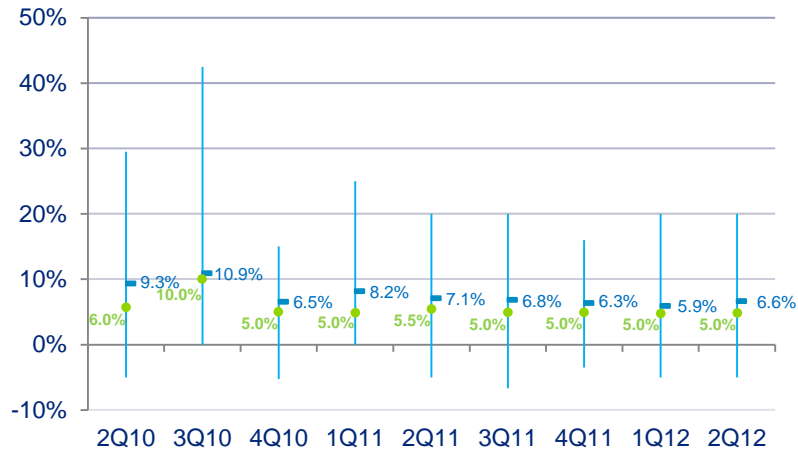
Clearly, as CFOs increasingly work side-by-side with CEOs, business unit leaders, and boards, they are having to flex and/or develop new muscles. And with the broader business environment becoming even more volatile, this is a trend that seems unlikely to relent any time soon.

*All numbers with an asterisk are averages that have been adjusted to eliminate the effects of stark outliers.

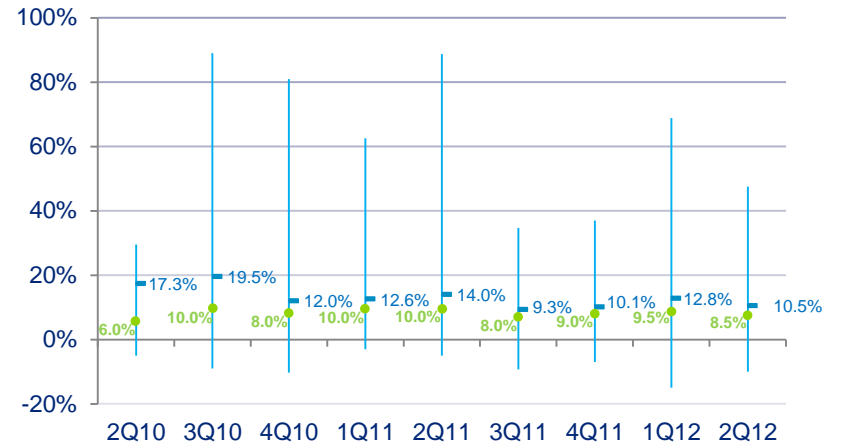
Growth Trends

CFOs' expected year-over-year increases in growth metrics

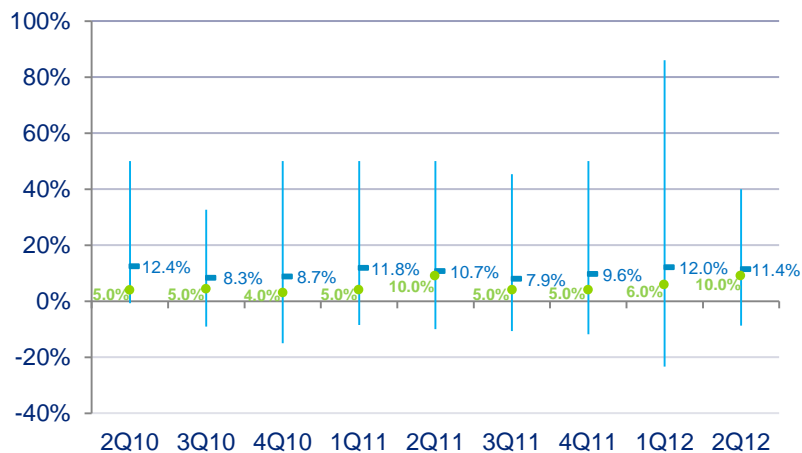
Revenue Growth



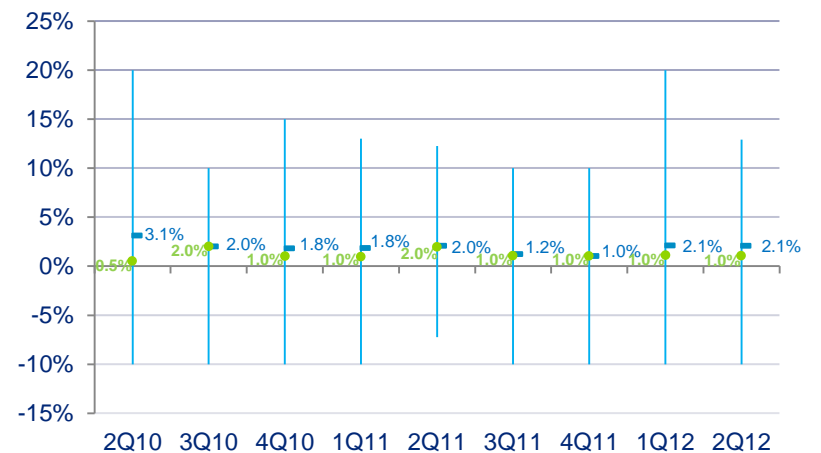
Earnings Growth



Capital Spending Growth



Domestic Employment Growth



Vertical lines indicate the range for responses between the 5th and 95th percentiles.
Horizontal marks indicate outlier-adjusted means.
Circles indicate unadjusted medians for all responses .

Operating Trends

CFOs' expected year-over-year increases in operating metrics

Year-Over-Year Projections (and percent of CFOs who expect year-over-year gains)

	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12
Sales	9.3%	10.9%	6.5%	8.2%	7.1%	6.8%	6.3%	5.9%	6.6%
	84%	93%	81%	89%	80%	83%	87%	79%	85%
Earnings	17.3%	19.5%	12.0%	12.6%	14.0%	9.3%	10.1%	12.8%	10.5%
	89%	93%	80%	83%	83%	82%	84%	79%	81%
Wages/salaries	3.1%	3.3%	3.2%	3.1%	3.3%	3.2%	2.9%	3.2%	3.0%
	94%	93%	95%	96%	95%	94%	94%	94%	90%
Employee benefits	4.1%	4.7%	5.3%	4.5%	4.7%	4.3%	4.3%	4.3%	4.5%
	85%	90%	89%	87%	90%	93%	87%	89%	93%
Non-labor input costs / commodities	2.9%	2.2%	2.6%	3.4%	5.0%	4.2%	3.5%	2.7%	2.9%
	73%	68%	75%	84%	93%	89%	78%	78%	84%
Dividends	6.5%	8.6%	4.1%	4.4%	3.7%	3.5%	2.4%	2.2%	3.9%
	38%	39%	28%	36%	35%	41%	27%	31%	33%
Capital spending	12.4%	8.3%	8.7%	11.8%	10.7%	7.9%	9.6%	12.0%	11.4%
	62%	58%	57%	61%	69%	59%	61%	68%	70%
R&D spending			4.1%	5.9%	3.5%	3.9%	5.4%	3.5%	2.9%
			54%	51%	43%	47%	53%	38%	40%
Marketing and advertising					4.6%	4.4%	3.9%	4.6%	3.9%
					59%	53%	60%	56%	56%
Number of domestic personnel	3.1%	2.0%	1.8%	1.8%	2.0%	1.2%	1.0%	2.1%	2.1%
	50%	60%	48%	61%	64%	52%	51%	51%	52%
Number of offshore personnel	3.5%	2.8%	3.6%	3.7%	4.1%	2.9%	4.8%	3.7%	3.8%
	41%	49%	47%	41%	57%	37%	50%	43%	41%
Use of offshore/outsourced third parties	2.9%	1.4%	2.8%	2.2%	2.2%	3.1%	3.7%	2.5%	3.6%
	35%	37%	32%	41%	31%	36%	49%	26%	30%

High-Impact Risks

European fallout, governmental shifts, and rising competition

CFOs' most-worrisome risks

Europe's economic and capital markets effects and worldwide debt

Last quarter, despite apparent improvements in European and North American economic conditions, CFOs continued to worry about slowing economic growth, the possible spread of European financial distress to North American banks, and the deterioration of capital availability.

This quarter, with new and resurgent economic and political issues looming in Europe, those concerns have only gotten stronger. With elections and a "fiscal cliff" looming in the U.S., CFOs also appear very worried about increasing regulation and changes in fiscal policy.

- **Global economy concerns:** Nearly half of all CFOs mention either U.S. or global economic conditions as their most worrisome risk, and about three quarters of those CFOs specifically mention European conditions. About 10% of all CFOs are most worried about the health of world financial markets (interest rates, credit/liquidity constraints, equity markets, etc.), especially within Financial Services.
- **Impacts of government:** About 20% of all CFOs name government- and regulation-related issues as their most worrisome risk. Concerns about both general and industry-specific legislation are predictably very high within Financial Services.
- **Internal missteps:** The number and scope of internal worries continued to rise this quarter, led mostly by concerns about competitive pressures, declining sales volume, and missed financial targets. There is also rising mention of concerns about executive transitions, succession planning, and availability of needed skill sets.



Please see Appendix for industry-specific findings.

Economy

Europe even more volatile, and governments even more gridlocked

Top challenges

Jobs concerns accelerate in U.S.; capital cost/availability a growing challenge in Canada and Mexico

As they indicated through their “most worrisome risks” (in the previous section), CFOs remain very concerned about the health of their domestic economies. But there continue to be strong differences in domestic economic concerns across the North American regions.

In the U.S., the combination of bleak prospects for near-term growth in Europe and slowing growth in China appears to be increasing CFOs’ focus on domestic markets. And as this happens, CFOs seem increasingly worried about both consumption-limiting unemployment and corporate tax policy – on top of their perpetually high concerns about social policy.

- **Unemployment** tops CFOs’ economy-level concerns for the first time this quarter with a whopping 59% of U.S. CFOs naming it in their top three (well above last quarter’s high of 43%). (Across all geographies, it is the top challenge for Retail/Wholesale, Technology, and Financial Services and is second for Services.)
- **Social policy/spending/investment** repeats as a top concern this quarter, with 51% of U.S. CFOs naming it a top three concern – down from 62% and 57% over the past two quarters. (Across all geographies, it is a top-two challenge for five of the eight industries – Manufacturing and Retail/Wholesale are the notable exceptions.)
- **Environmental policy** concerns declined from 38% last quarter to 25% this quarter. (Across all geographies, it is the top challenge for Energy/Resources and a top-two challenge for Healthcare/Pharma and Manufacturing)
- **Corporate tax policy** concerns, which began to rise at the end of last year, hold steady at 35% this quarter, mostly driven by Manufacturing, Energy/Resources, and Healthcare/Pharma.
- **Other notable U.S. findings:** **Inflation** concerns, which fell sharply from 32% to 16% over the past two quarters, settled at 19% this quarter. **Capital cost/availability** concerns, which declined last quarter, resumed their normal level of about 25% this quarter driven by high importance in Healthcare/Pharma. The **most prevalent write-in choices** concern global and European economies, government deficits, interest rates, and commodity prices.

Economy Challenges – U.S.

Percent of respondents who place each option in their top three



Please see Appendix for industry-specific findings.

Economy

Top challenges (cont.)

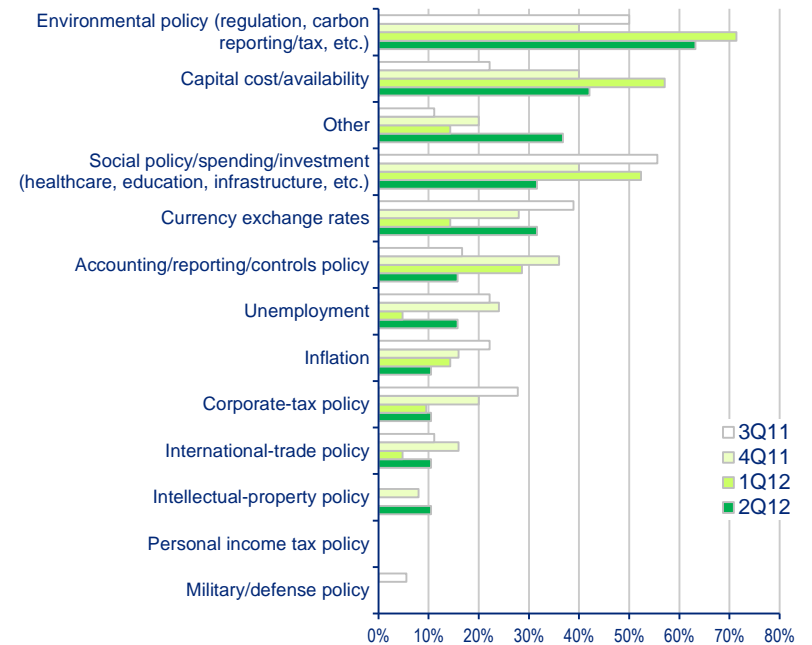
Canadian concerns are notably different, significantly influenced by both Canada's economic reliance on energy and resources and by high survey participation among Energy/Resources CFOs.

- **Environmental policy** concerns remain elevated this quarter, but fell from 71% to 63%. The concern was again prevalent in all represented sectors.
- **Capital cost/availability** concerns, which rose to 57% last quarter, resumed their norm of about 42%.
- **Social policy/spending/investment** concerns fell from their survey high of 52% last quarter to just 32% this quarter – well below their typical level.
- **Currency exchange rates** became a top concern for 32% of CFOs, after being only a minor concern in previous quarters.
- **Unemployment** concerns, which fell to just 5% last quarter, bounced back to 16% this quarter, more in line with historical averages.
- **Other concerns mentioned in write-ins** focus on construction activity, commodity taxes, and reduced energy consumption.

Mexican CFOs indicate a strong focus on social policy at 70% – well above last quarter's 50%. Environmental policy fell from 42% to 20% while accounting/reporting/controls policy rose to 40%. Currency exchange rates rose from 42% to 50%, and capital cost/availability rose from 33% to 50%.

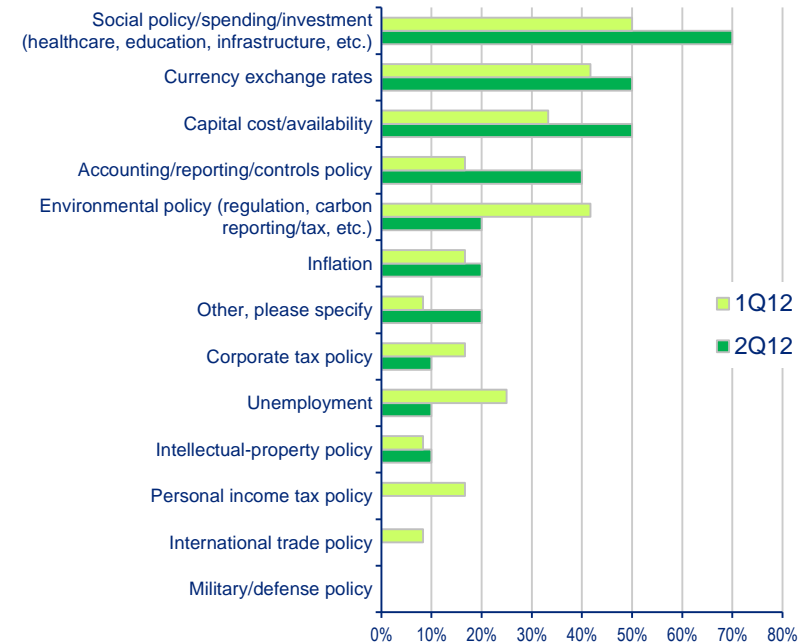
Economy Challenges – Canada

Percent of respondents who place each option in their top three



Economy Challenges – Mexico

Percent of respondents who place each option in their top three



Please see Appendix for industry-specific findings.

Economy

How to tackle the U.S. national debt

Mostly agreement around spending cuts; less around taxes

The specific components of CFOs' solutions to the U.S. national debt problem are varied, but more than 60% of U.S. CFOs prefer an approach that includes substantial reduction in government spending. Just over 20% believe the goal should be to support near-term economic recovery by holding off on major spending cuts (while also formalizing a longer-term path to debt reduction).

There is broader diversity of opinion when it comes to taxes. Nearly 30% of U.S. CFOs believe the best approach is to raise taxes at the same time the government substantially reduces spending – presumably to increase the pace of deficit reduction. Nearly 10% believe the government should raise taxes while only freezing spending.

About one third of CFOs prefer to leave taxes unchanged, and about 5% say personal and/or corporate taxes should be lowered. Other recommendations (mostly American) include adopting the Simpson-Bowles proposal (the final report of the 2010 National Commission on Fiscal Responsibility and Reform), moving to a territorial tax system, devaluing the U.S. dollar, and downsizing entitlement programs.

Canadian CFOs are relatively more inclined to raise taxes and hold off on major spending reductions, but a core of about 30% strongly opposes raising taxes. Mexican CFOs generally prefer one of two paths: cut spending and raise taxes at the same time, or bolster near-term recovery by holding off on major cuts.

Opinions across industries are directionally similar in many cases, but with some interesting differences. In particular, Retail/Wholesale shows a strong opposition to any option that raises taxes, while Technology and Services both tend to favor a balance of spending cuts and tax increases.

Response to the “fiscal cliff”

Lack of clarity drives varying (or non-existent) mitigation

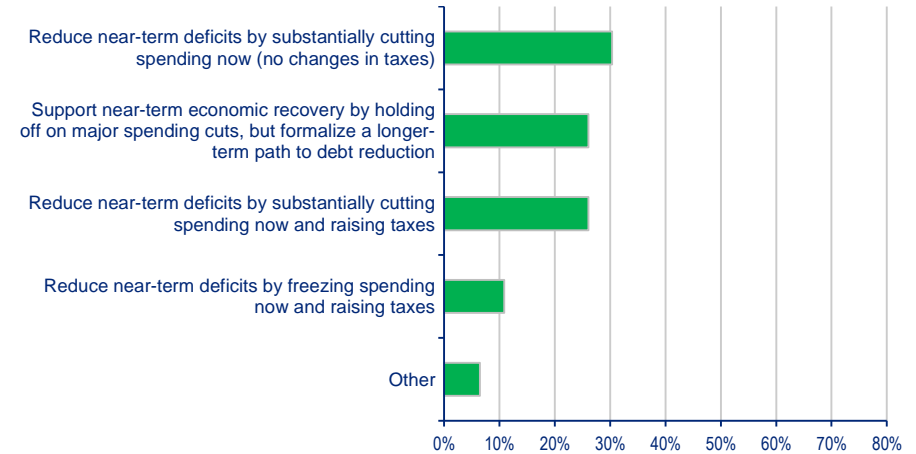
More than two thirds of U.S. CFOs say their government’s looming “fiscal cliff” is not causing their companies to alter their approaches to investments, hiring, or transactions. The remaining third is largely split around the types of adjustments they are making.

Roughly equal proportions (about 10%) of CFOs report delaying and accelerating investments. About 10% say they are accelerating major transactions, and about 5% say they are delaying them. There is more agreement around hiring, where 13% claim delays and just 2% cite acceleration.

CFOs cite other responses, including accelerating dividends and stock transactions, and providing more conservative guidance to investors.

Responses from Canada and Mexico are similar to those from the U.S.

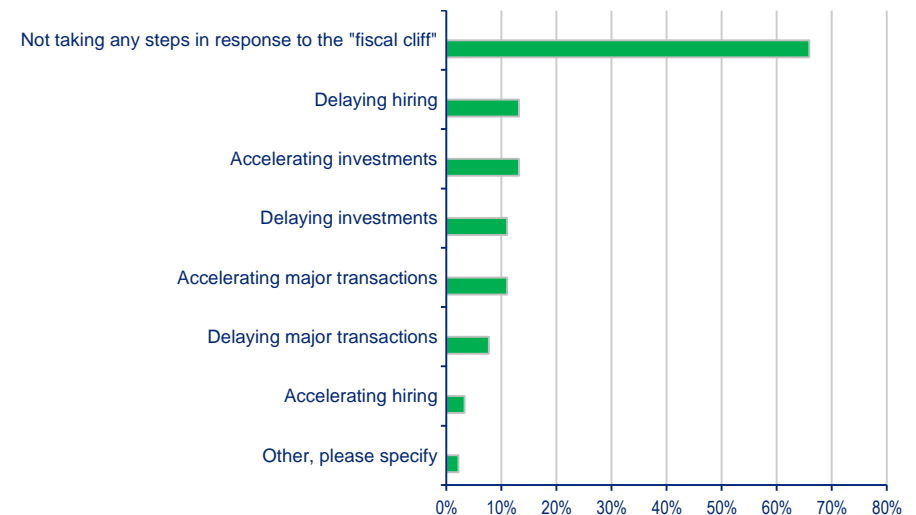
Solving the National Debt Crisis



Please see Appendix for industry-specific findings.

How CFOs are Addressing Fiscal Uncertainty

Percent of respondents indicating each action (multiple answers permitted)



Please see Appendix for industry-specific findings.

Industry

Signs of declining demand and intensifying competition

Top challenges

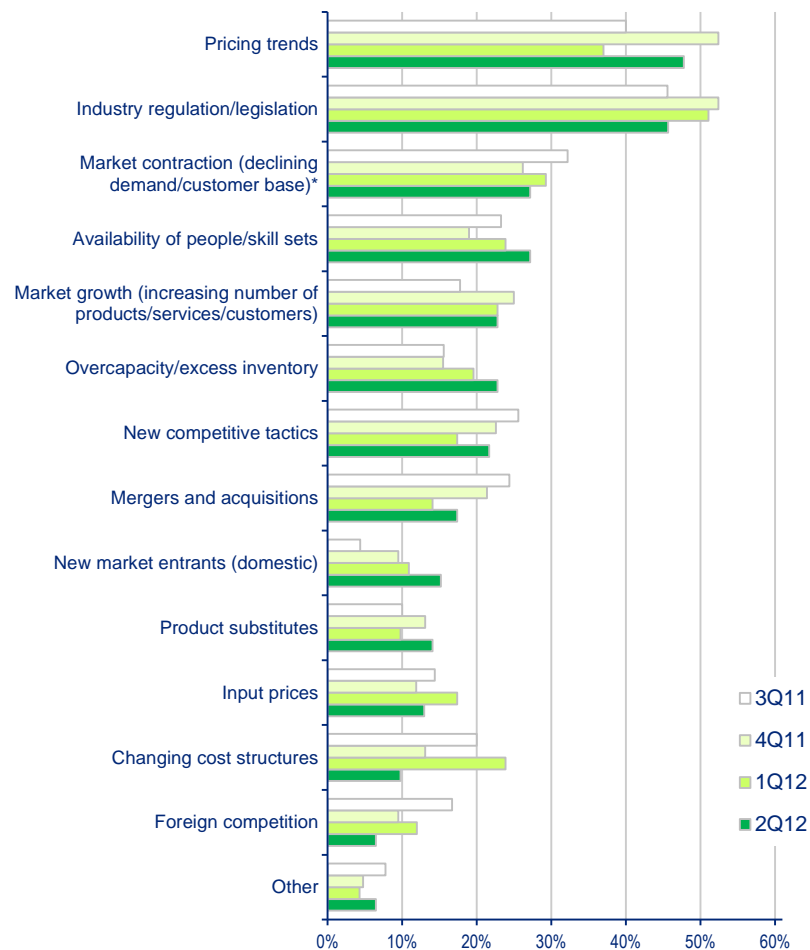
Pricing and regulation

Over the past several quarters, CFOs' growth-related concerns have been giving way to rising concerns about the health and competitiveness of their core markets. This quarter's results support this trend while indicating ever-present concerns about regulation and rising concerns around talent.

- **Pricing trends** claim the top spot this quarter, rising from 37% to 48%. They are the top concern within Retail/Wholesale and Services and a top-two concern in Manufacturing, Technology, and Financial Services.
- **Industry regulation/legislation** falls to a close second at 46% after leading for seven consecutive quarters. It is again the top concern for Energy/Resources, Financial Services, and Healthcare/Pharma.
- **Changing cost structures** loses ground (mostly to pricing trends), falling from 24% to 10%. It is still a substantial concern for Healthcare/Pharma, but the sample size for this sector is low this quarter.
- **Market contraction** holds steady at 27% and is the top challenge in Manufacturing and a top-two concern for Services. **Market growth** holds steady at 23% and is a top-two challenge for Financial Services and Services.
- **Availability of talent** rises to 27% this quarter and is again a top-two challenge for Energy/Resources.
- **Other notable findings:** **New competitive tactics** are again a top-two challenge for Retail/Wholesale and Services, and they are the top challenge in Technology; **input prices** are no longer the top challenge in Manufacturing, but they are still in the top three; **foreign competition** concerns have declined notably over the past year; **new market entrants** are a strong concern in Healthcare/Pharma (although the sample size is small); and **product substitutes** are still a top challenge in Technology.

Industry Challenges

Percent of respondents who place each option in their top three



Please see Appendix for industry-specific findings.

Company

Growing, profitable, and lean – but diminishing returns

Top challenges

Current markets and talent

After indicating a strong focus on business planning and growth near the end of 2011, companies now appear more focused on execution and defending current markets with a declining focus on new markets and M&A.

- **Revenue from existing markets** again tops this quarter's list, with 60% of all CFOs naming it a top challenge – the same as last quarter. It is the top company challenge for all industries, which has not been the case for any of our previous surveys.
- **Revenue from new markets** is a top challenge for 22% of companies. This is the second consecutive quarterly decline, possibly signifying a scaling back of geographic expansion in response to conditions in Europe and Asia. It is still a top-three challenge in Technology and Manufacturing.
- **Talent availability** concerns continued their ascent, topping 40% and reaching their highest level in the history of this survey. They are strongest in Manufacturing and Energy/Resources, where half of CFOs cite this challenge.
- **Framing and/or adapting strategy** declined from 40% to 27% last quarter and rose back to 30% this quarter. As we pointed out last quarter, this may signify a shift away from strategy revision/formulation efforts and toward execution. It is still a top challenge for Technology and Retail/Wholesale.
- **Prioritization of investments** again ranks third, holding steady at 32%. It is a top-three challenge in Energy/Resources, Financial Services, and Healthcare/Pharma.
- **M&A-related challenges** declined from 25% to 19% and are not particularly strong in any sector.
- **Overhead cost reduction** holds steady at 22%, and **direct cost reduction** receded from 19% to 13%.

Company Challenges

Percent of respondents who place each option in their top three



Please see Appendix for industry-specific findings.

Company

Business focus

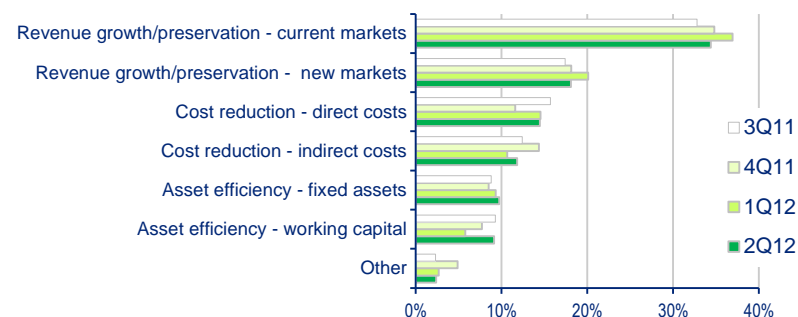
Less on growth, more on asset efficiency

Consistent with most quarters, about half of companies' strategic focus this quarter is on revenue growth and preservation, down from last quarter's 57%. Retail/Wholesale and Technology again lead at about 60%, but both indicate a decline. Taking up the slack for the declining focus on growth is an increased focus on asset efficiency – especially within Manufacturing, Energy/Resources, Services, and Healthcare/Pharma.

- **Growth:** Across all companies, CFOs cite a 34% (down from 37%) focus on revenue growth/preservation in **existing markets** with Retail/Wholesale highest at 44% and Healthcare/Pharma and Energy/Resources lowest at about 25%. CFOs cite an 18% focus on growth in **new markets** (down from 20%) with Technology highest at 27% and Services trailing at just 13%.
- **Costs:** The focus on **indirect costs** and **direct costs** both holds relatively steady at 12% and 15%, respectively. All industries are close to the mean for indirect costs. Services and Technology indicate the highest focus on direct costs at about 18%.
- **Asset efficiency:** The focus on fixed assets holds steady at about 10%, but the focus on working capital jumps more than three points to 9%. Healthcare/Pharma and Energy/Resources are high for fixed assets (19% and 15%, respectively), and Manufacturing is very high for working capital at 17%.

Company Business Focus

Distribution of company focus among respondents



Please see Appendix for industry-specific findings.

Company

Expected sales and earnings

Still positive year over year, but very high variability

Despite their global economic concerns and declining optimism, CFOs continue to express rising expectations for their companies' performance over the next year. Growth projections for earnings, capital investment, and domestic hiring are all still positive. But rising variability of CFOs' projections and their responses to our direct question around longer-term earnings growth (see page 18) suggest there may be cause for longer-term worry.

- **Sales growth** expectations of 6.6%* are above last quarter's survey low of 5.9%,* and they are about average relative to the projections we have seen over the past year. Approximately 85% of CFOs expect year-over-year gains (up from last quarter's survey low of 79%), with Manufacturing the most optimistic at nearly 9%. U.S. expectations are 6.7%* (5.2% last quarter), with Canada and Mexico at 5.9%* and 8.7%*, respectively (both were about 7% last quarter).
- **Earnings growth** expectations have been trending upward despite relatively flat sales growth estimates. This quarter's 10.5%* expectation is lower than last quarter's 12.8%,* but it is still above all other estimates from the past year. Similar to last quarter, about 80% of CFOs expect gains, but the median expectation fell from 9.5%* to 8.5%.* Manufacturing and Technology are most optimistic at about 15%, while Financial Services' estimates declined sharply. U.S. estimates lead at 12.3%* (14.5%* last quarter) with Mexico slightly behind at 11.7%* (15.8%* last quarter), and Canada again trailing at just 4.6%* (6.9%* last quarter). Similar to last quarter, high variability suggests significant difference of expectations.
- **Non-labor input cost growth** expectations remain low this quarter at 2.9%, just above last quarter's survey-low 2.7%. **Wage/salary projections** are consistent with previous quarters at around 3%, and expected **employee benefits cost** increases of 4.5% are about the same as last quarter.

Expected dividends and investment

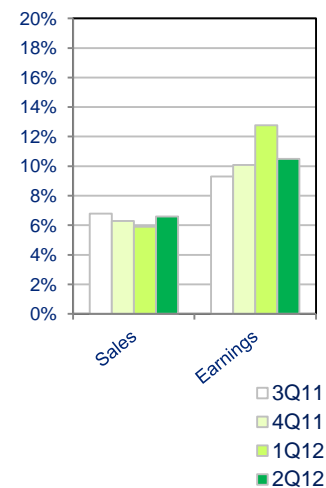
Still bullish on capital investment

Despite strong economic concerns and moderating expectations for sales and revenue, companies are not yet backing off their capital investments – although their R&D and marketing spend did take a hit.

- **Dividend increases** of 3.9% are well above their survey low 2.2% last quarter – possibly signaling a change in companies' use of cash. The median expectation is again 0%, and just 33% of CFOs project dividend increases. Manufacturing, Retail/Wholesale, and Energy/Resources are highest at roughly 5%* expected dividend growth.

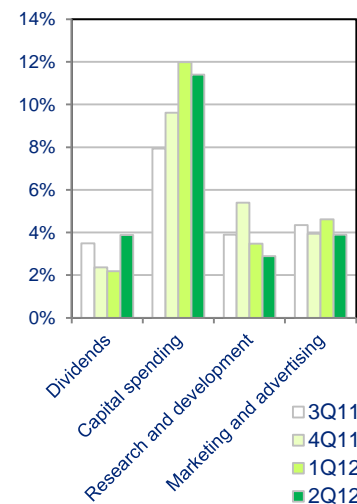
Operating Results*

Expected change year-over-year



Investments*

Expected change year-over-year



*Averages have been adjusted to eliminate the effects of stark outliers. Please see Appendix for industry-specific findings.

Company

- **Capital investment growth** expectations remain relatively strong this quarter at 11.4% – below last quarter’s 12% but still among the highest we have seen over the past two years. About 70% of CFOs again expect gains, and the median is 10%. Estimates from Manufacturing, Technology, Healthcare/Pharma, and Services are all near the mean. Energy/Resources is well above the average at nearly 20%.*
- **R&D spending** is expected to rise just 2.9%* – lowest in the history of this survey, and well below the 3.5%* estimate from last quarter. Only Manufacturing and Healthcare/Pharma are above this quarter’s level. **Marketing spend** is expected to rise 3.9%* (down from 4.6%* last quarter), led mostly by a sharp expected decline in Retail/Wholesale.

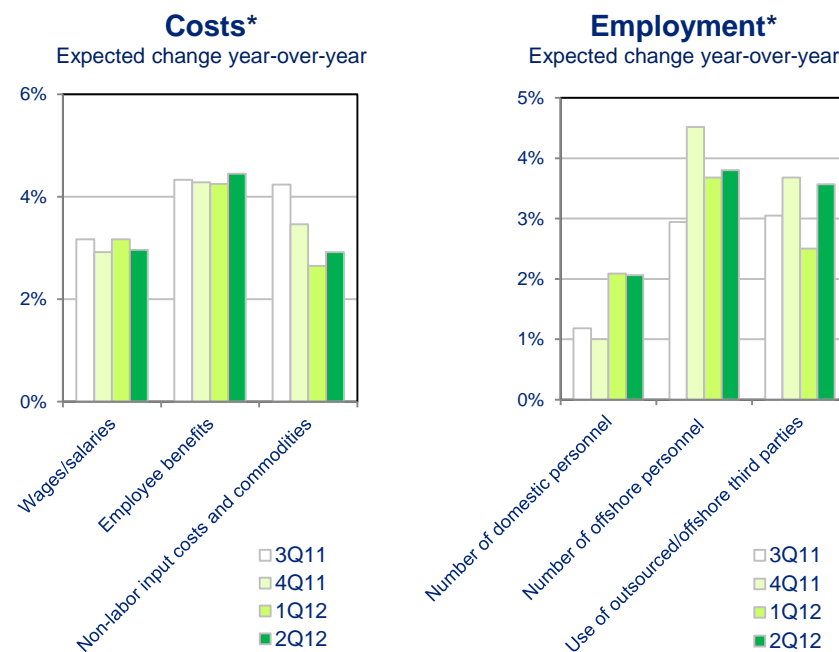
Employment

Still comparatively optimistic

Despite CFOs’ broad-based concerns and flattening performance estimates, and despite recent disappointing jobs growth data in the U.S., domestic hiring estimates are relatively strong this quarter. Estimates rose substantially last quarter and held steady this quarter, although increasing variability suggests widening diversity of opinion.

- **Domestic hiring** expectations repeat at 2.1%,* among the highest in the two-year history of this survey. The median expectation is again 1.0% and just over half of CFOs project gains, but variability is very high. Canadian projections declined from 3.7%* to 2.7%.* U.S. projections held steady at 1.9%,* and Mexico rose to 1.9%* from 1.3%.* Energy/Resources again leads the pack at about 4%.*
- **Offshore personnel growth**, which peaked in 4Q11 at 4.5%,* matches last quarter’s projection at 3.8%. U.S. projections are unchanged and highest at 4.2%.* Canada fell from 3.0%* last quarter to 2.7%* this quarter, and Mexico came in at 3.6%.* Technology leads at 10%.*
- **Outsourced staffing** growth rose to 3.6%* this quarter, very close to the survey-high 3.7%* it reached in 4Q11 – led by the U.S. at 4.4%* (up from 3%*) and Mexico at 3.8%* (up from 2.6%*). Canada is again lowest at 0.4% (down from 1.1%* last quarter). Technology rose to 5%.

* Numbers with asterisks have been adjusted to eliminate the effects of stark outliers.



*Averages have been adjusted to eliminate the effects of stark outliers.
Please see Appendix for industry-specific findings.

Company

Own Company Optimism Rising anxiety...again...

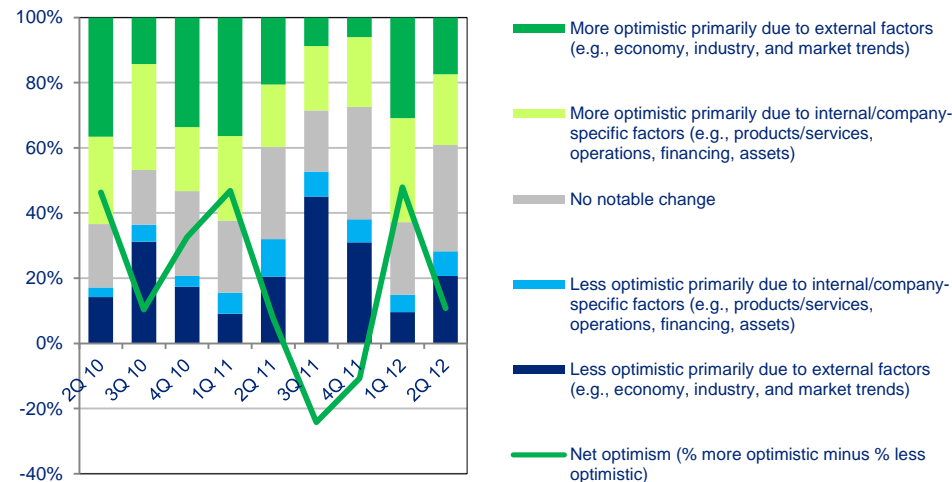
During our last survey, global economic news and national macroeconomic indicators were mostly positive, and both the Dow and S&P 500 indices had risen substantially. This quarter, Europe took another turn for the worse and again appears on the brink. Upcoming elections and current political stalemates in the U.S. are raising worries about regulation and the end-of-year “fiscal cliff.” Consequently, the S&P 500 index has fallen about 4% since our last survey,* and so has CFO sentiment – especially within the U.S.

- **Still optimistic on the whole:** After two quarters in negative territory, net optimism rebounded sharply to +48 percentage points last quarter. This quarter’s net optimism is more muted at +11, dragged down by declining sentiment among U.S. CFOs. Nearly 40% of CFOs say they are more optimistic this quarter than they were last quarter (down from nearly two thirds last quarter), but 28% are now more pessimistic (a large 33% report no change from last quarter’s mostly positive sentiment). About 45% of the optimism is driven by external factors, with 55% driven by internal factors. Just over 20% of CFOs say they are *less* optimistic due to external factors, up from 10% last quarter.
- **U.S. becoming more cautious:** Net optimism in the U.S. rose markedly from lows of -15 and -34 at the end of 2011 to +40 last quarter. This quarter it fell to zero, with roughly equal proportions of CFOs reporting rising optimism, rising pessimism, and no change. Reflecting rising concerns about the external business environment, about two thirds of the rise in pessimism is fueled by external factors, and just 40% of optimism is fueled externally.
- **Canada and Mexico remain optimistic:** Continuing a trend evident for the past four quarters, Canadian CFOs’ are comparatively positive at +42 net optimism – down from +57 last quarter but still very high. Just 16% express declining optimism, and those CFOs exclusively cite external reasons. About 55% of the optimism is driven by rising assessments of external factors. Half of Mexican CFOs indicate rising optimism (down from three quarters last quarter) and 30% are less optimistic (fueled exclusively by external factors).

*The decline was 3% to 6% depending on when a particular CFO responded within the two-week survey period

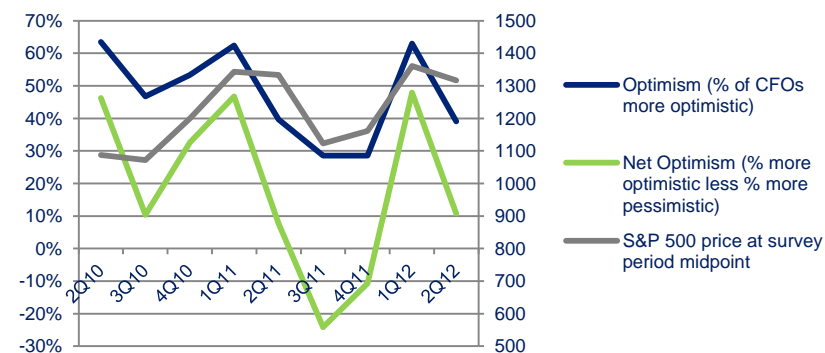
Company Optimism

Net optimism and causes of rising/falling optimism



Company Optimism

Optimism and net optimism relative to S&P500 price



Please see Appendix for industry-specific findings.

Company

Earnings growth ahead of sales growth

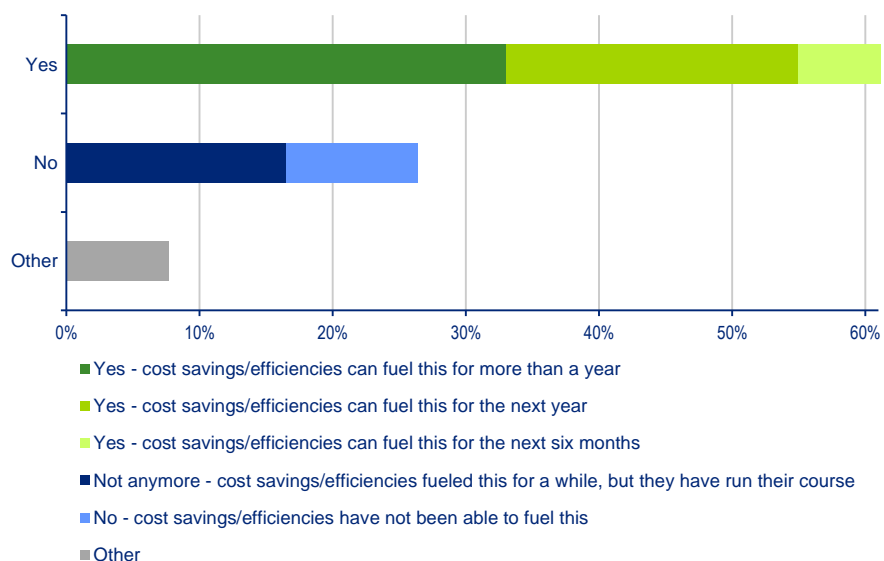
Signs of flattening (and maybe declining) earnings

Since this survey launched in the second quarter of 2010, CFOs' expectations for year-over-year earnings growth have been consistently positive and considerably above their estimates for sales growth. Sales growth expectations have been positive but falling for the last several quarters, prompting the question, "How much longer can companies continue to generate earnings growth despite weakening sales growth?" The good news is that nearly two thirds of CFOs say their earnings growth can outpace their sales growth for at least six more months. The bad news is that only one third thinks this can continue for more than a year, and 17% say this dynamic has already run its course.

The most optimistic sector is Retail/Wholesale, where 60% of CFOs say their margin growth can continue to outpace revenue growth for more than a year. Next are Technology and Energy/Resources (57% and 50%, respectively). Results for Healthcare/Pharma, Financial Services, and Services are the most pessimistic. The 0% projection from Healthcare/Pharma may be attributable to a small sample size, but just 17% of Financial Services CFOs and 25% of Services CFOs expect to see margin growth ahead of sales growth beyond a year from now despite higher sample sizes. About one third of CFOs from both these sectors say that margin gains from efficiency improvements and cost reduction have already run their course.

There are some differences by country. Most notably, Canadian and Mexican CFOs are much more likely to say their earnings *cannot* fuel further earnings growth in excess of sales growth going forward.

Can Earnings Growth Continue to Outpace Sales Growth?



Please see Appendix for industry-specific findings.

Company

Steps taken to improve margins Industries vary, but few stones left unturned

In the absence of strong consumption and revenue growth, many companies have been maintaining (and often improving) margins through better focus, cost cutting, and efficiency gains. The results have been remarkable, with many companies generating better profitability now than they did preceding the recession. So how have they been doing it?

The dominant mechanisms reflect basic blocking and tackling – with a very heavy focus on **improving process efficiencies in both indirect and direct cost areas**. More than 80% of all companies cite these tactics, and fewer than 10% say these efforts are over. Another 17% (perhaps those who have only recently become margin-challenged) say they plan to start these efforts in the future. Retail/Wholesale, Financial Services, and Healthcare/Pharma lead the pack with 100% of CFOs saying they have improved **process efficiencies in overhead cost areas**, and well over half of those in each industry say they will continue to make improvements. Manufacturing and Healthcare/Pharma lead in **reducing direct costs** with 87% and 100% of CFOs reporting this tactic, respectively, and at least 75% saying they will continue to make improvements.

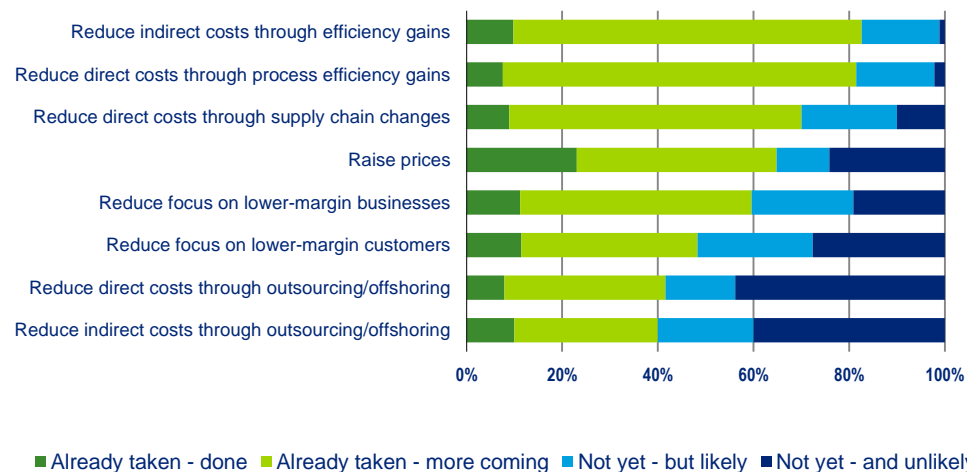
About 70% of CFOs report substantial cost-saving **changes to their supply chains** – mostly through reconfigured and renegotiated sourcing arrangements. Nearly 90% of those who have already used this tactic say they will pursue supply-chain changes in the future, as will two thirds of those who haven't yet employed this tactic. Healthcare/Pharma and Manufacturing have been most likely to use this tactic and are also the most likely to continue to employ it.

About 40% of CFOs report using **outsourcing and/or offshoring** as a cost-reduction tactic for both direct and overhead costs, and about 75% say they will make more use of it. The highest use has been in Technology (86% for direct costs, 67% for overhead costs) and Financial Services (59% and 61%). Overall, about 40% of CFOs say they do not plan to utilize this tactic at all.

With sales volume a rising challenge, companies have been actively managing the pricing component of the top line, especially in Manufacturing and Retail/Wholesale. A remarkable 65% of all CFOs report having **raised prices** (82% in Manufacturing, 90% in Retail/Wholesale), and 42% say more price increases are coming. About one third of the companies who have not employed price increases say they will likely do so. More than 40% of CFOs in Technology, Energy/Resources, and Financial Services say they have not raised prices and do not plan to.

What Have Companies Done to Strengthen Margins?

Percent of respondents citing each level of action



Please see Appendix for industry-specific findings.

Narrowing their business focus has been a margin-improvement tactic for nearly 60% of companies, and 80% of these companies plan to further reduce their focus on lower-margin businesses. This dynamic is most prevalent in Technology (70% and 80%) and Healthcare/Pharma (67% and 100%). Overall, about half of those who haven't done this say they expect to do so in the future.

Refining their customer focus has been a margin-improvement tactic for 48% of companies, and 76% of these companies plan to further reduce their focus on less profitable customers. This dynamic is most prevalent in Technology (71% and 80%) and Financial Services (55% and 55%). Overall, 47% of those who have not done this say they expect to do so in the future. Just 44% of Healthcare/Pharma CFOs say their company has already employed this tactic, and 56% say they do not plan to do so.

Finance Organization

Adapting to both immediate and longer-term company needs

Top challenges

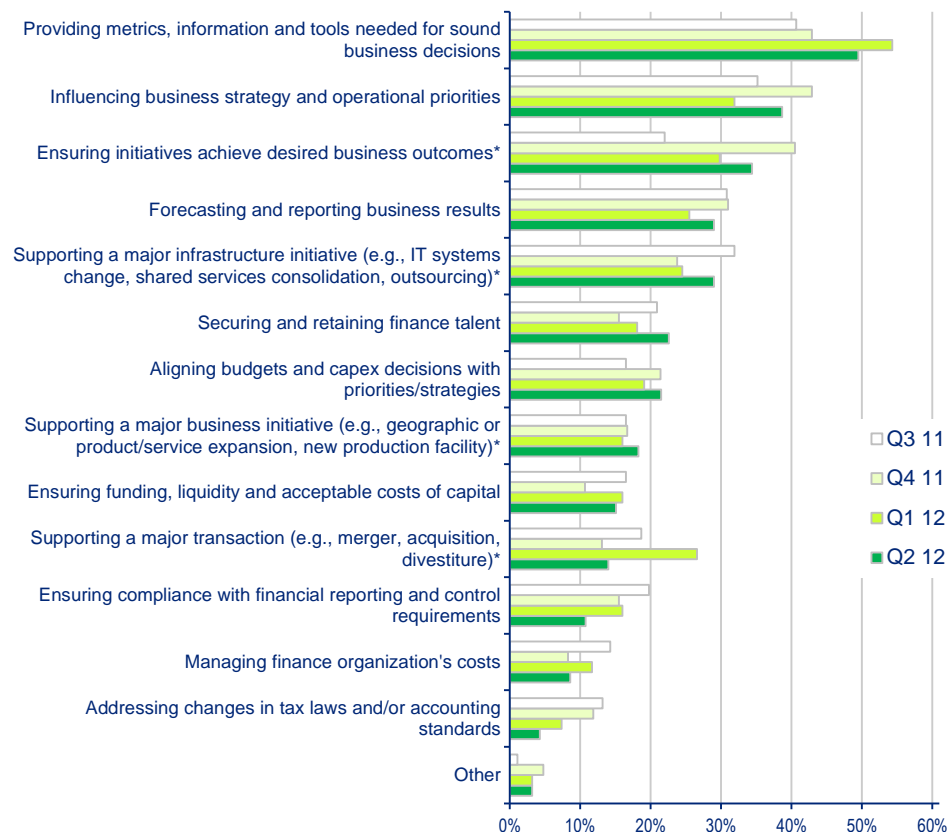
Getting the core things right

Similar to last quarter, this quarter's findings appear to indicate a weaker focus on growth and a more tactical focus on operational execution and maximizing the value generated by current investments.

- **Providing information, analysis, and metrics** repeats as the top challenge this quarter, but declined from 54% last quarter to 50% this quarter. It is the top challenge for Manufacturing, Retail/Wholesale, Energy/Resources, and Financial Services.
- **Influencing strategy and operational priorities** remains a top priority at 39%, up from 32% last quarter. It is a top-two challenge for Retail/Wholesale and Energy Resources, and is the top challenge in Services.
- **Ensuring initiatives achieve desired business outcomes** is third at 34% (up from 29% last quarter). It is a top-two concern for Financial Services and Services.
- **Forecasting and reporting business results** is cited by roughly 29% (up from 25%) of CFOs and is a top-three challenge for Technology, Retail/Wholesale, and Financial Services.
- **Supporting major infrastructure initiatives** rose from 25% to 29% and is a top-two challenge for Manufacturing and Healthcare/Pharma.
- **Supporting a major transaction**, which rose markedly to 27% last quarter, retreated to its normal level of 14%. Challenges are highest in Manufacturing.
- **Other notable findings: Supporting a major business initiative** is the top challenge for three quarters of Healthcare/Pharma CFOs, but the sample size is just four; **Aligning budgets and capex decisions with priorities** is the top challenge for nearly half of Technology companies. **Ensuring funding, liquidity, and an acceptable cost of capital** is a top challenge for half of Energy/Resources CFOs.

Finance Organization Challenges

Percent of respondents who place each option in their top three



Please see Appendix for industry-specific findings.

Finance Organization

Finance's involvement in pricing decisions

Strong and growing role, especially in some industries

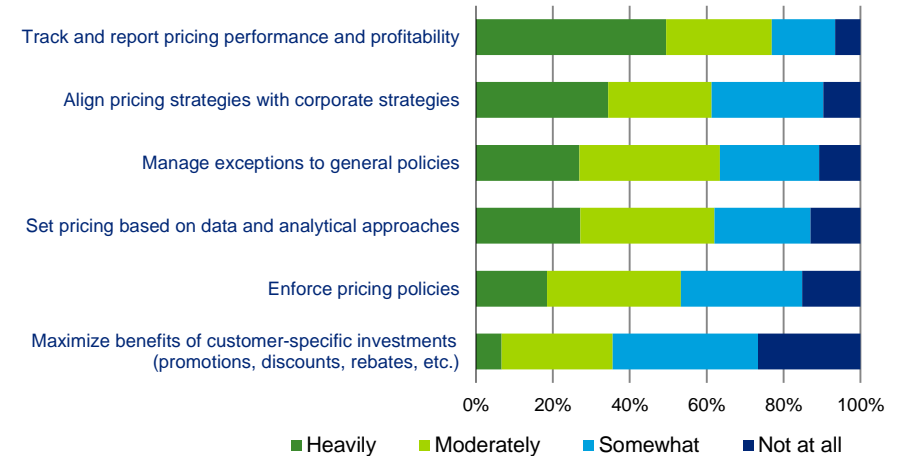
For many companies, slow growth in North America has put pressure on sales volume. Consequently, many have turned toward more aggressive management of pricing, and it appears that finance organizations are playing a major role.

Much of finance's effort appears focused on the administrative side of pricing – tracking and reporting, managing exceptions, and enforcing policies. But within some industries (especially Manufacturing, Retail/Wholesale, and Financial Services), finance is playing a more strategic role around aligning pricing with corporate strategies, driving pricing approaches, and getting the most out of customer-specific investments.

- **Tracking and reporting pricing performance and profitability:** About 77% of CFOs say their finance organization is moderately to heavily involved. Manufacturing, Retail/Wholesale, and Financial Services are highest, all around 90%. Two thirds of Manufacturing CFOs report heavy involvement. Healthcare/Pharma is also very high, but the sample size is small.
- **Managing exceptions to general policies:** About 63% of CFOs say their finance organization is moderately to heavily involved. Retail/Wholesale and Manufacturing are highest at about 70%, with 40% of Retail/Wholesale CFOs citing heavy involvement. Healthcare/Pharma is also very high, but the sample size is small.
- **Aligning pricing strategies with corporate strategies:** About 60% of CFOs say their finance organization is moderately to heavily involved. Financial Services is highest at 75%, with half reporting heavy involvement. Manufacturing is next at about 70%. Healthcare/Pharma is very high, but the sample size is small. Nearly 40% of Energy/Resources CFOs report no involvement.
- **Setting pricing based on data and analytical approaches:** About 60% of CFOs say their finance organization is moderately to heavily involved. Manufacturing and Financial Services are highest at about 68%. Healthcare/Pharma is also very high, but the sample size is small.
- **Enforcing pricing policies:** About 53% of CFOs say their finance organization is moderately to heavily involved. Manufacturing and Retail/Wholesale are highest at about 67%. Healthcare/Pharma is again very high, but with a small sample size. Financial Services is below average despite being above average in most other areas.
- **Maximize benefits of customer-specific investments (promotions, discounts, rebates, etc.):** About 35% of CFOs say their finance organization is moderately to heavily involved. Retail/Wholesale and Manufacturing are highest at 50% and 43%, respectively.

Finance's Involvement in Pricing Activities

Degree to which CFOs say their organizations are involved



Please see Appendix for industry-specific findings.

Finance Organization

Use of profitability analysis

Consolidated/business-level analysis dominates, but there are substantial industry differences

There are two basic ways to look at what CFOs say about profitability analysis – from an “analysis outward” perspective (i.e. which levels/types of analysis are conducted and which decisions each type drives), and from a “decision outward” perspective (i.e. which decisions are affected by profitability analysis and which types of profitability analysis are utilized).

From an “analysis outward” perspective:

- **Consolidated and geography-level profitability analyses** are the most prevalent levels of profitability analysis and are the most-utilized levels when it comes to pricing, investment, spending, and compensation decisions. While this is probably not surprising, it is perhaps more of a surprise that, although 80% of companies utilize geographic profitability analysis, well under one third utilize it in making pricing decisions – suggesting that pricing decisions are most often made on a standardized, cross-geography basis. Compensation appears to be driven more by consolidated profitability than by regional profitability, but roughly half of CFOs say they utilize a mixture of the two.
- **Product- and service-level profitability analysis** is utilized by about 88% of companies, mostly for pricing and investment decisions (about 60% of companies cite each use). This analysis is heavily utilized for pricing decisions in Manufacturing (78%) and Financial Services (73%) and for investment decisions in Retail/Wholesale (70%) and Healthcare/Pharma (75%). About half of companies use it to make operating expenditure decisions, mostly in Manufacturing (57%) and Retail/Wholesale (70%), and about one third use it for compensation decisions, mostly in Financial Services and Healthcare/Pharma (both 50%).
- **Customer-level profitability analysis** is utilized by about 75% of companies, mostly for pricing and investment decisions (about 46% and 39% of companies cite each, respectively). This analysis is used most heavily in Retail/Wholesale for operating expenditure decisions (50%) and in Manufacturing for both pricing (60%) and investment (55%) decisions. Just 24% use it for compensation decisions, mostly in Energy/Resources (33%) and Technology (29%).

Use of Profitability Analysis in Decision-Making

Percent of CFOs utilizing each level of analysis for each decision type

	Not utilized	Impacts Pricing	Impacts Investment	Impacts Operating Spend	Impacts Compensation
Consolidated/business level profitability analysis	2%	40%	68%	71%	75%
Geographic/region level profitability analysis	20%	30%	58%	52%	48%
Product/service level profitability analysis	12%	60%	59%	47%	36%
Customer level profitability analysis	25%	46%	39%	35%	24%

Please see Appendix for industry-specific findings.

From a “decisions outward” perspective:

- **Pricing decisions** are typically driven by product/service-level profitability analysis at 60% (78% for Manufacturing, and 73% for Financial Services). Customer-level profitability analysis affects pricing decisions for 46% of companies (59% for Manufacturing, and 58% for Services), and about 40% use consolidated/business-level profitability (57% for Financial Services).
- **Investment decisions** are typically driven by consolidated/business-level profitability analysis at 68% (86% for Technology). Product/service-level profitability analysis affects investment for 59% of companies, 58% use region-level analysis (86% for Technology, and 70% for Energy/Resources), and 39% use customer-level analysis (57% for Technology, and 55% for Manufacturing).
- **Operating spend decisions** are typically driven by consolidated/business-level profitability analysis at 71% (92% for Services). Region-level profitability affects operating spend for 52% of companies, about 45% of all companies incorporate product/service-level profitability analysis (70% for Manufacturing), and 35% use customer-level analysis (50% for Retail/Wholesale).
- **Compensation decisions** are typically driven by consolidated/business-level profitability analysis at 75% (91% for Financial Services, and 86% for Technology). Region-level profitability analysis affects compensation decisions for 48% of companies (71% for Technology, and 70% for Energy/Resources), and 36% use product/service-level profitability (50% for Financial Services).

CFO Career

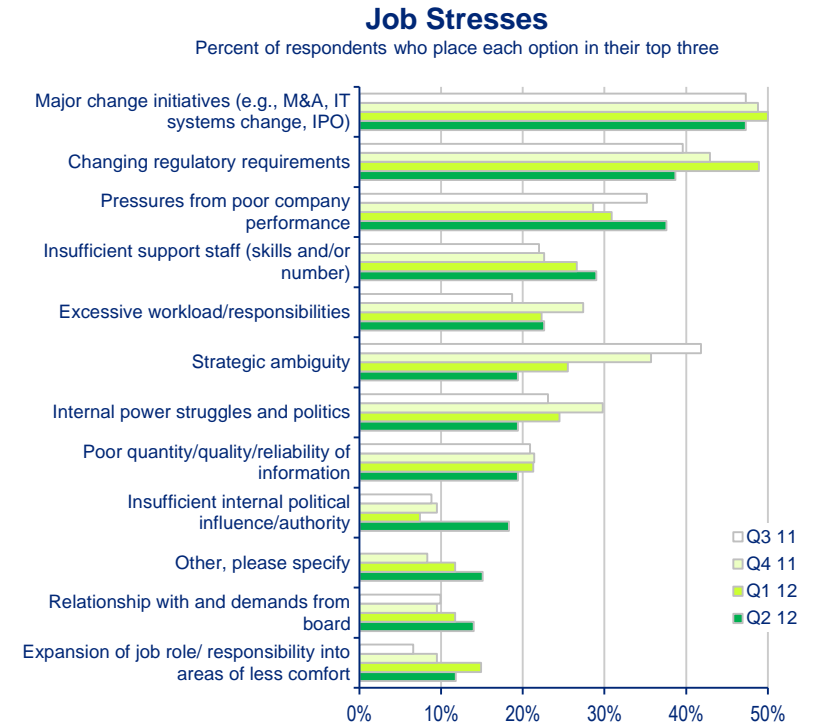
Declining company performance and rising demands for soft skills

Top job stresses

Less strategic ambiguity, but worsening performance

Strategic ambiguity, which was a top job stress up until last quarter, continues to decline this quarter. In its place are rising concerns about execution and rapidly increasing pressures from poor company performance.

- **Major change initiatives** (e.g. M&A, systems changes, IPOs) are again CFOs' dominant career stress, cited by just under half of all CFOs. It is the top stress for Manufacturing and Energy/Resources and ties for the top spot in Retail/Wholesale and Healthcare/Pharma.
- **Changing regulatory requirements** are a top career stress for just under 40% of CFOs, down from 49% last quarter. They are again the dominant stress for Financial Services and Healthcare/Pharma and second for Energy/Resources.
- **Strategic ambiguity** topped out as a top job stress for 42% of all CFOs in 3Q11 and spent seven straight quarters in the top three. But it fell to 26% and fifth place last quarter and to just 19% and sixth place this quarter—suggesting that the worries CFOs expressed in previous surveys about obsolete and unclear strategies may have largely subsided. The exceptions are Technology and Energy/Resources, where 43% and 30% of companies still name it a top challenge, respectively.
- **Pressures from poor company performance** continued to grow this quarter, again ranking third and rising from 31% to 38%. It is the top job stress in Technology (71%) and Services (54%) and ranked second in Manufacturing (39%).
- **Insufficient support staff** ranked fourth at 29%, driven largely by Healthcare/Pharma (50%), Manufacturing (35%), and Financial Services (also 35%).
- **Other notable findings: Internal power struggles** and **insufficient internal political influence/authority** are top stresses for 50% and 60% of Retail/Wholesale CFOs, respectively. **Excessive workloads and responsibilities** are a top concern for 23% of CFOs overall.



Please see Appendix for industry-specific findings.

CFO Career

Key traits for CFO successor

CEO compatibility, relationship skills, and a strategy background

In light of escalating demands on Finance and CFOs, what do CFOs look for in their successors? CFOs say the most important traits for their successors are centered on their ability to work effectively with others – particularly the CEO -- and to contribute to strategy development.

In fact, CFOs from all industries (other than Healthcare/Pharma with its small sample size) say personal compatibility with the CEO is the most important trait for their successors. And consistent with CFOs' need to work effectively with the broader management team, ability to build other internal relationships finishes second.

Strategy development experience, a financial planning and analysis background, and company knowledge come in third through fifth, respectively, consistent with CFOs' rising contributions to strategic planning. Technical experience (financial accounting, capital/treasury management, and audit/controls) are seen as generally less important, as are experience with industry and ownership type.

There are, however, some interesting industry differences. Energy/Resources and Manufacturing place higher-than-average emphasis on capital/treasury management. Retail/Wholesale and Energy/Resources place comparatively high importance on external relationship-building experience, while Technology and Services emphasize a background in financial planning and analysis.

Important Factors for Selecting a CFO Successor

Percent of respondents who place each factor in their top three



Please see Appendix for industry-specific findings.

CFO Career

How CFOs invest their own money

Cash benefits apply at a personal level, too

Despite strong recent corporate performance and stock valuations considerably below historic highs, CFOs appear cautious when it comes to putting their own money at risk in equities and bonds. While CFOs do indicate a willingness to hold these instruments, they also indicate an equal preference for cash – a possible sign that, like their companies, they value the security and flexibility cash provides.

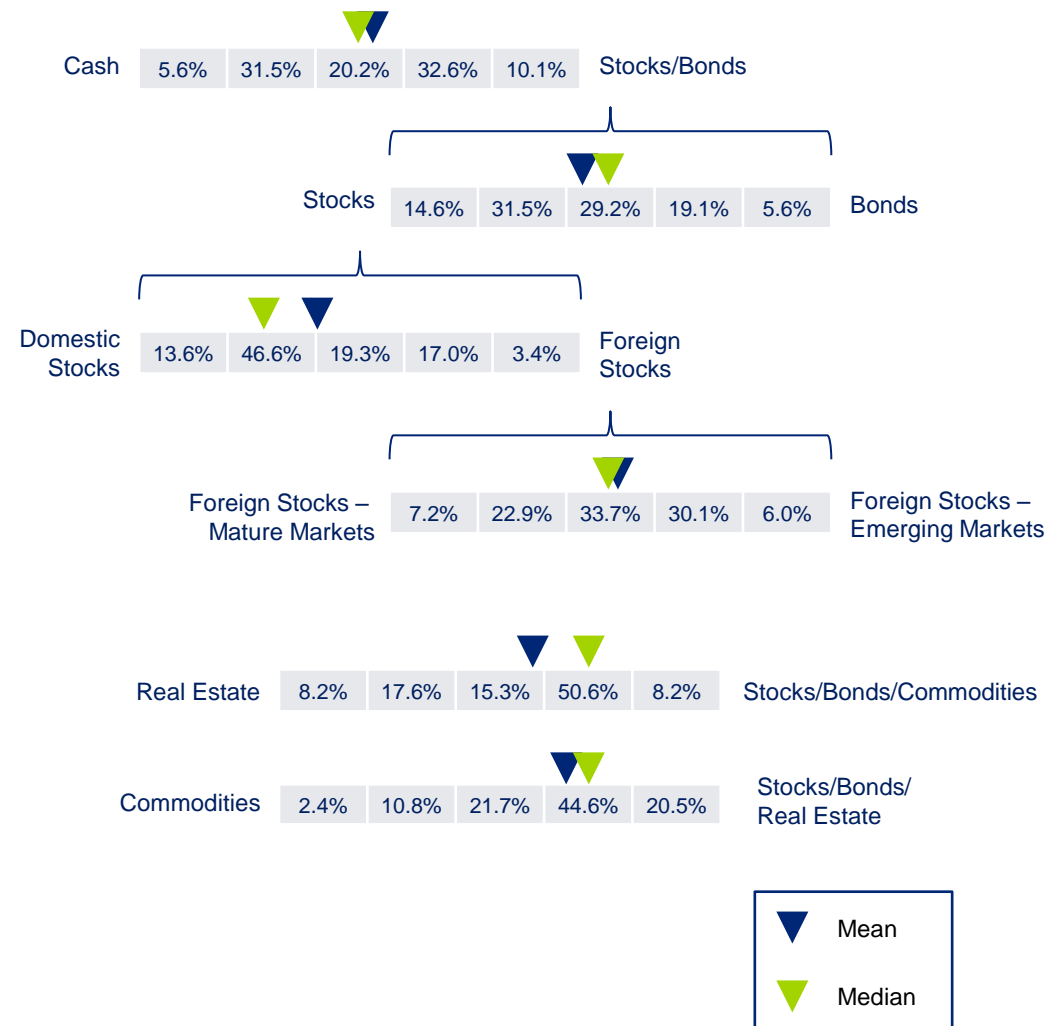
Real estate investment appears substantial, with about 30% of CFOs indicating more investment in this vehicle than in stocks, bonds, and commodities.

Commodity investing is relatively weak, with only about 12% of CFOs indicating this preference.

When it comes to stocks and bonds, about 46% of CFOs favor stocks versus 25% for bonds. About 60% of the stock focus is on domestic stocks with 14% indicating a very strong preference, and just 20% indicate a preference for foreign stocks. When it comes to foreign stocks, CFOs are about evenly split between mature and emerging markets.

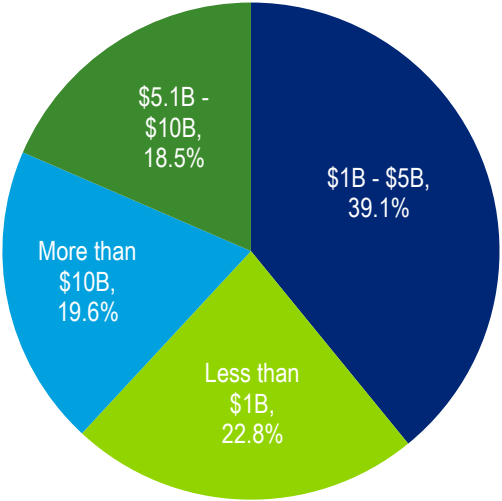
CFOs' Allocation of Personal Investments

CFOs' relative preference of different investment vehicles

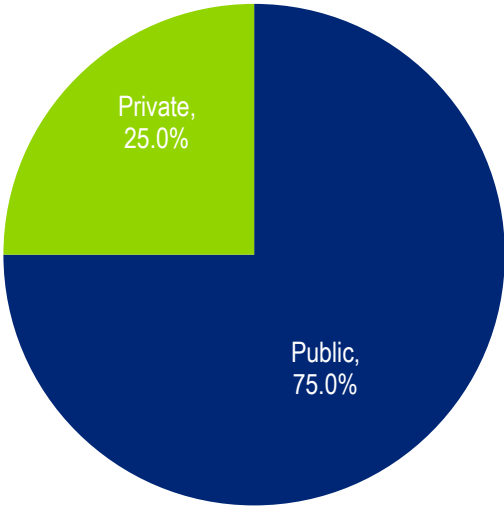


Demographics

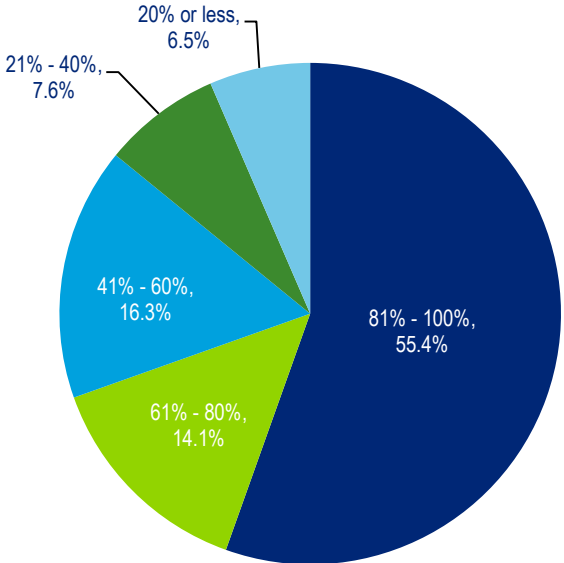
Annual Revenue (\$U.S.)
(n=92)



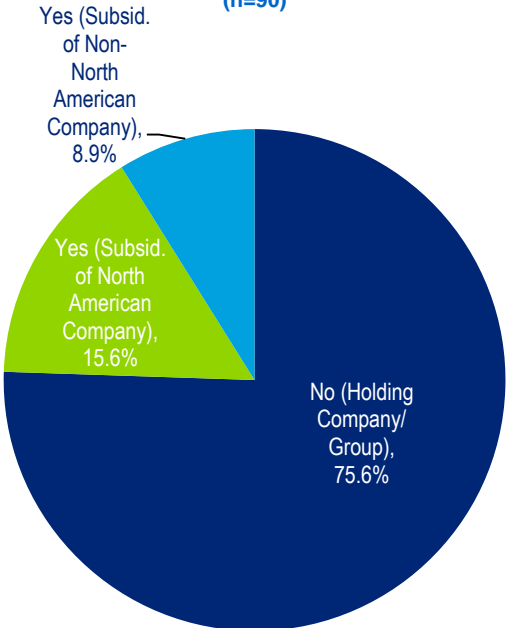
Ownership
(n=92)



Revenue from North America
(n=92)

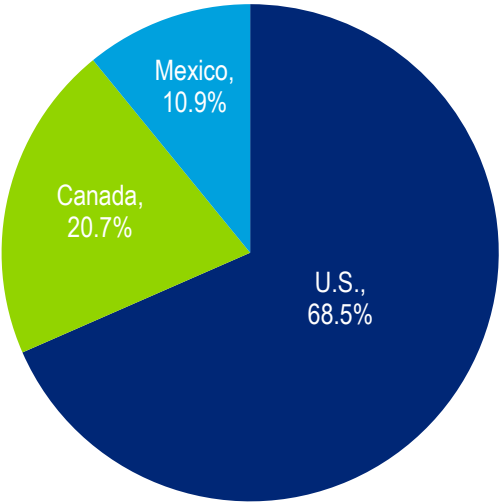


Subsidiary Company
(n=90)

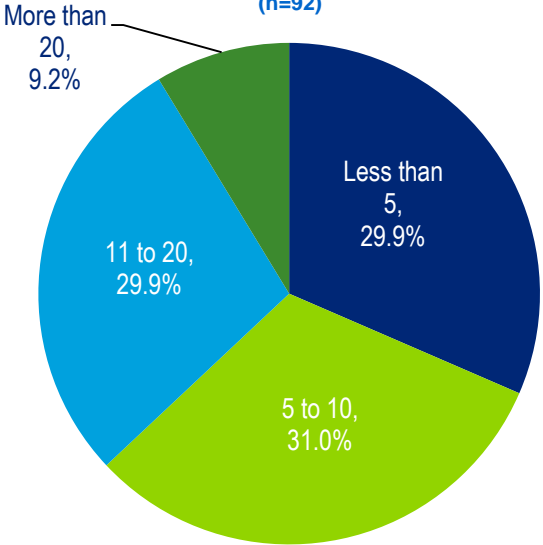


Demographics

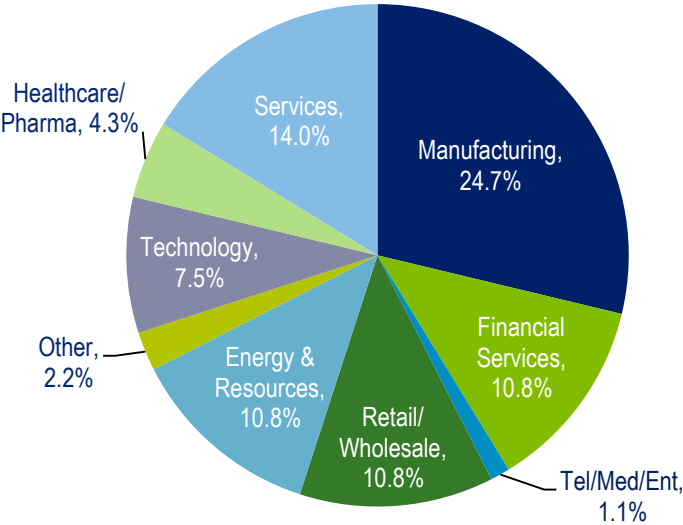
Country
(n=92)



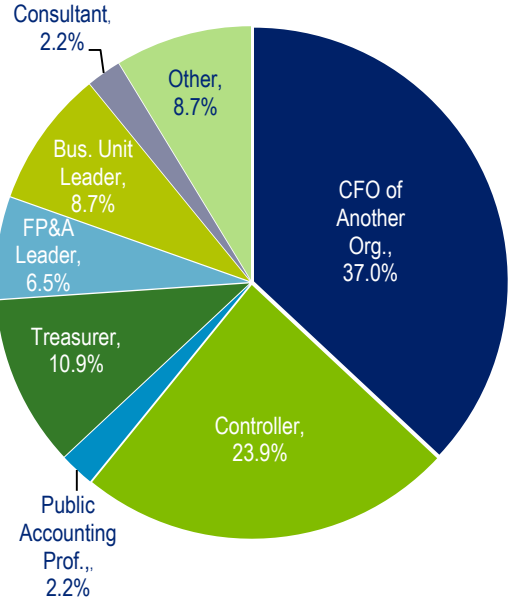
CFO Experience (Years)
(n=92)



Industry
(n=93)



Previous CFO Role
(n=92)



Methodology

Background

The Deloitte North American CFO Survey is a quarterly survey of CFOs from large, influential companies across North America. The purpose of the survey is to provide these CFOs with quarterly information regarding the perspectives and actions of their CFO peers across five areas: CFO career, finance organization, company, industry, and economy.

Participation

This survey seeks responses from client CFOs across the United States, Canada, and Mexico. The sample includes CFOs from public and private companies that are predominantly over \$3B in annual revenue. Respondents are nearly exclusively CFOs. Participation is open to all sectors except for government.

Survey Execution

At the opening of each survey period, CFOs receive an email containing a link to an online survey hosted by a third-party service provider. The response period is typically two weeks, and CFOs receive a summary report approximately two weeks after the survey closes. Only CFOs who respond to the survey receive the summary report for the first 30 days after the report is released.

Nature of Results

This survey is a “pulse survey” intended to provide CFOs with information regarding their CFO peers’ thinking across a variety of topics; it is not, nor is it intended to be, scientific in any way, including in its number of respondents, selection of respondents, or response rate – especially within individual industries. Accordingly, this report summarizes findings for the surveyed population but does not necessarily indicate economy- or industry-wide perceptions or trends.



Deloitte.

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