Prepared by AmCham member

# CFOs swing to safe markets

## Economic crisis cuts appetite for risk

**BDO´s annual survey of over 1000 CFOs from mid-sized companies planning foreign expansion has revealed that businesses have become more cautious. Geopolitical risks and currency fluctuations are at the top of the list of CFO investment concerns.**

The results of the survey indicate:

- 66% of mid-sized company CFOs plan expansion in the BRICs, US, UK and Germany – rather than taking a gamble on riskier destinations
- China tops the league of most attractive investment destinations; France and Japan plummet in the rankings
- CFOs redraw map of risk hotspots: Southern Europe now seen as a risk equal to Libya, Syria and Egypt

Although six in ten (62%) respondents admit they are relying on international business to drive growth, companies are adopting a more risk-averse approach as a result of increasing macroeconomic worries.

Consequently, the BRICs are seeing a boom in investment, with nearly half (45%) of the CFOs interviewed now investing in or planning to enter these markets, compared to nearly three out of ten (29%) in 2011. The findings indicate that the BRICs are now perceived as established – rather than emerging – investment markets. China remains the number one investment destination, topping the BDO Global Opportunity Index for the third year running. 69% of respondents cite China's market size as a key advantage, while 37% say they are attracted by its cheap labor.

The US, UK and Germany all secure top-10 spots as sought-after markets for international expansion, with the US in second, Germany in fifth and the UK in seventh place. Intention to invest in these three markets has also seen a collective rise, with over a third (36%) planning investment here in 2012, compared with only a quarter (26%) in 2011.

There appears to be no light at the end of the tunnel for Southern Europe. Traditionally a safe investment, CFOs now believe parts of Europe are as risky as the politically unstable countries of the Middle East. Spain is perceived as a riskier investment destination than Egypt; likewise, Greece is seen as more risky than Libya and Syria.

As a result of this flight to safety, other traditionally established markets, including France and Japan, have also fallen significantly in the 2012 BDO Global Opportunity Index. France has dropped from the seventh most attractive country for investment to thirteenth, while Japan comes in at twenty-seventh after previously ranking seventeenth. Cultural and language issues are cited as significant barriers to success in both markets, with a number of CFOs commenting that the change of government in France has created uncertainty, adding to it being perceived as a less attractive investment destination.

Martin van Roekel, CEO of BDO, commented: "CFOs remain under pressure to look abroad to grow their businesses, but this year currency fluctuations and geopolitical risks have replaced red tape and bureaucracy as the top threats to successful foreign expansion.

"Our survey shows that the risk-reward dynamic is changing as ambitious CFOs face greater risk for the same reward. CFOs from mid-sized companies are having to stick to what they know in their approach to overseas investment, rather than take bigger risks that could lead to greater returns.

"These companies are the growth engine of global trade and their investment plans are a real boost for what our survey identifies as the 'big seven' – the BRICs plus the US, UK and Germany. However, these markets aren't the only choice for firms looking to expand abroad. Investment overseas continues to present significant challenges, but a tailored market-by-market approach will increase the likelihood of success, even in riskier markets."

BDO's survey also found that the appetite for risk varies considerably from country to country, with Russian, Chinese and Japanese CFOs most likely to gamble on growth. Six out of ten Russian firms (60%) and nearly half of Chinese and Japanese respondents (46% and 44% respectively) are prepared to take major risks. This compares to just 18% of CFOs in Brazil and 22% in France.

Other key findings from the report include:

- CFOs in 2012 are finding it more difficult to conduct business abroad than three years ago. Reasons cited are the poor economic situation (31%), increased regulation (25%) and greater competition (22%)
- Despite the challenges faced, CFOs have reported an average increase of 9% in their company's international revenues over the past financial year, with Indian and Russian companies seeing the highest average overseas revenues (18% and 17% respectively)
- The mood of CFOs in 2012 is more subdued than 2011 - only 24% of CFOs are very optimistic about their expansion plans, compared to 49% in 2011
- The eurozone crisis has had a particular knock-on effect for Chinese and Brazilian companies: their decisions on where to invest have been impacted by the crisis more than the eurozone markets themselves
- More than two thirds of CFOs see customer service as a vital element for international success, with Brazilian, British and South African companies ranking this most highly
- Almost half (46%) of CFOs cited securing good advice from reliable people on the ground as their chief insight for successful international expansion.

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