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Business Outlook Survey: Bottom Dwellers

Across business segments, CFOs see the outlook remaining bleak until 2010.

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As they continue to seek the bottom of this economic crisis, CFOs now are expecting to find it further and further in the future. Sixty-seven percent of respondents to this quarter's Duke University/CFO Magazine Global Business Outlook Survey are less optimistic about the economy than they were last quarter, when finance chiefs already were feeling quite dismal. Just 35 percent now expect the economy to begin a recovery this year, with a third of them looking to the first half of 2010 for those receding "better days." A final third say recovery will not begin until the second half of next year or later.

The survey, conducted in late February among 1,268 respondents around the world, finds CFOs planning to cut costs every way they know how in the coming months. U.S. companies will pare capital spending by 13 percent on average over the next 12 months, while advertising and marketing budgets shrink by 8 percent, and tech spending slides more than 5 percent.

Uncertainty, above all, seems to weigh on CFOs. Unsure about the economy, the strength of their own customer base, and their ability to access capital, many are putting all investment plans on hold. Paul Miller, finance chief at Bright Transportation Services, a commercial truck leasing company based in Texas, says many of his customers are hesitant to commit to long-term contracts. Some are looking to extend existing leases for shorter terms. As a result, "It makes it hard for us to plan," says Miller, who notes that the company will reduce its annual truck-replacement expenditures by 50 to 60 percent because he is not sure he can secure financing.

Sixty percent of companies already have made layoffs in the past year, and more are on the way. More than half the respondents plan a workforce reduction in the next 12 months. Those anticipated layoffs — expected to average about 6 percent of companies' work forces — represent some 7.6 million jobs, according to Campbell Harvey, international professor of finance at Duke's Fuqua School of Business, and the founder of the survey. Finance employees will feel slightly less impact than their colleagues in other departments; CFOs predict a 4-percent reduction in accounting and finance staff.

In a further threat to consumer spending, those workers who remain employed may see their paychecks frozen or reduced. More than half of all survey respondents plan to freeze pay in the coming 12 months, while 21 percent plan wage reductions. Thirty-nine percent plan to reduce employee hours.

Even companies with businesses holding up fairly well are taking precautionary steps to ensure their future financial footing. "Everyone is trying to preserve cash and take anticipatory action in their business to protect against soft spots," says Richard Schrader, finance chief at Parsons Brinckerhoff, the multinational engineering and construction firm.

Michael Morrow, finance chief at Blue Cross Blue Shield of Minnesota, says that while the nonprofit health insurer likely will hit its modest goals this year, the company still has held off on filling some open positions, and it is eliminating merit raises this year — a move he says employees seem to have accepted as a prudent financial step. "We are also looking closely at trying to make our processes more efficient, possibly by eliminating some activities that add some value but also add a lot of cost and complexity to the organization," he says.

Schrader says that his management team is reevaluating some aspects of the business, too. "We're having more frequent internal meetings with senior management and operating heads, discussing whether we should be developing some early-warning metrics and whether we are anticipating potential risks to the business adequately. There are also a lot more checks and balances in terms of decision-making on spending money," he says.

"No one knows when the economy will turn the corner," says Schrader. But if, as he and Morrow suggest, management teams are indeed making operational improvements to their businesses, focusing on their most important initiatives, and thoughtfully considering risk management processes, perhaps those companies that do eventually turn the corner will emerge ready to grow.

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