A tale of two markets

Telling the story of investment across developed and rapid-growth markets

2012

At a glance

EY

Building a better working world

What is *A tale of two markets?*

In light of sluggish performance in many developed markets, business leaders are increasingly looking to rapid-growth markets to sustain growth. This fundamental shift of resource allocation requires the CFO to master the attributes of "ambidextrous management." Not only do they need to manage a portfolio of investments across highly divergent markets, they also need to be able to distil this complex, and sometimes contradictory, strategy into a clear and coherent narrative for investors. To tell a tale of two very different markets will require the CFO to rethink traditional communication strategies and reporting frameworks.

A tale of two markets is the third report in ***The Master CFO Collection***, and explores the role of the CFO in balancing investments across developed and rapid-growth markets. It looks at the process of supporting strategic choices through resource allocation, and examines the way in which CFOs communicate these decisions to investors.

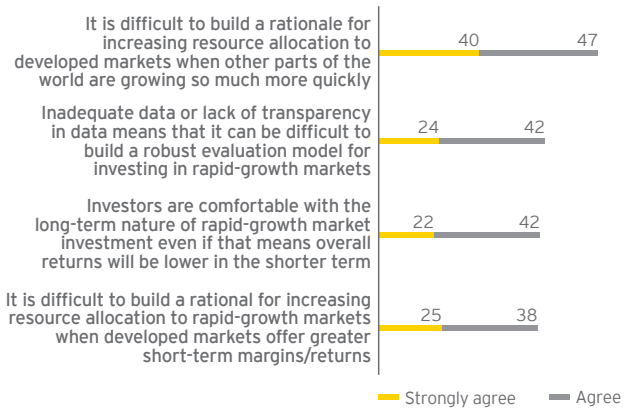
In it we address:

- How CFOs are approaching the challenge of balancing investments across divergent markets
- How different markets need different incentive mechanisms to drive performance
- The role of the CFO in communicating with the investor in relation to a changing investment profile
- Top tips for CFOs in building investor confidence in their growth story
- Sources of information that investors rely on to make investment decisions, including the role of reporting
- What high performers are doing differently

Balancing investments across divergent markets

In balancing investments across markets, the CFO has to constantly manage contradictory forces: the drive to capture the growth opportunities in rapid-growth markets – despite inadequate data to evaluate these opportunities – as well as the need to protect sources of profitability from mature markets.

CFOs have to manage contradictory forces:

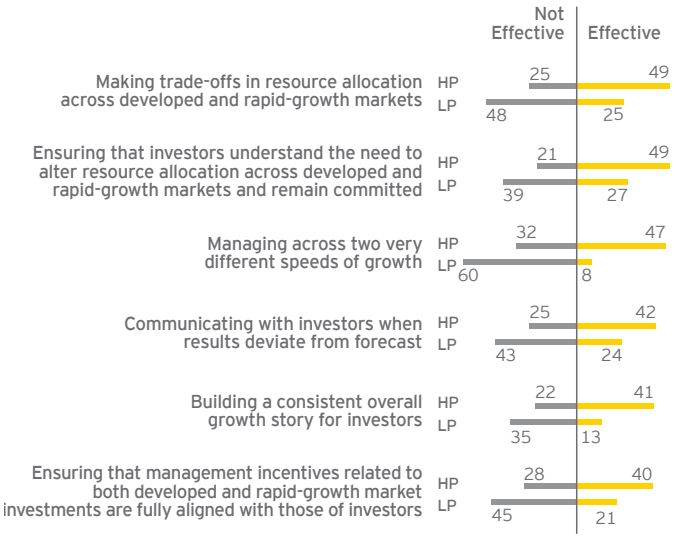


Please indicate whether you agree with the following statements. (percentage of 759 CFOs)

The study includes findings from interviews with leading CFOs, investors and other senior executives, as well as two surveys conducted with the Economist Intelligence Unit – one of 759 CFOs from around the world and the second of 244 professional investors. Those whose interview insights are shared within the study include CFOs and senior executives from:

- BlackRock
- Bombardier
- Diageo
- Fitch Ratings
- Hermes Equity Ownership Services
- Invensys
- JP Morgan Asset Management
- Shire
- Standard Chartered Bank
- Telenor
- Telstra
- The Carlyle Group
- UPS
- Vimplecom
- Westfield

High performing organizations are better at managing the trade offs in resource allocation:



HP = CFOs from high performing organizations: those with EBITDA growth in the top quartile over the last three years

LP = CFOs from low performing organizations: those with EBITDA growth in the bottom quartile over the last three years

How would you rate the effectiveness of your company at managing the following aspects of its investment strategy? (percentage of 759 CFOs)

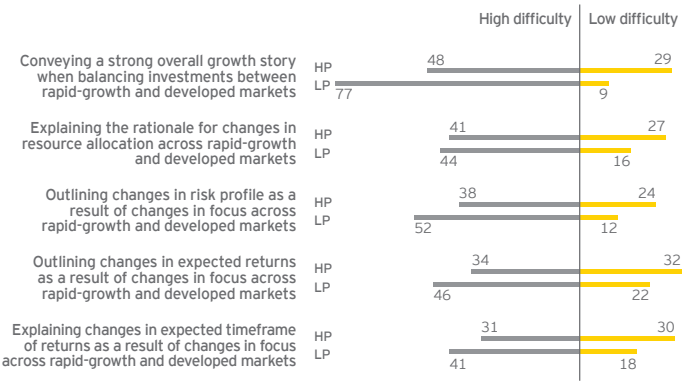
"The challenge in emerging markets is that you don't want to just throw money at everything. You also have to invest appropriately in developed markets to support the strategy and to drive the scale benefits."

Deirdre Mahlan, CFO, Diageo

Building investor confidence in long-term health

As companies rebalance investments across markets, investors want reassurance from the CFO first and foremost. This will require the CFO to clearly and coherently narrate two distinctly different chapters of a single story to ensure that investors are with them for the journey.

High performers are better at communicating a cohesive story:



HP = CFOs from high performing organizations: those with EBITDA growth in the top quartile over the last three years

LP = CFOs from low performing organizations: those with EBITDA growth in the bottom quartile over the last three years

What degree of difficulty are you currently encountering in communicating with your investor base across the following areas? (percentage of 759 CFOs)

"CFOs will always impress us if they are able to tell us what they would do if the strategy does not work. It's very rare to get people who do that."

Richard Hunter, Managing Director, Fitch Ratings

sources of data in addition to the report

	CFOs	Investors
Most useful in developed markets	1. Interim report (33%) 2. Investor road shows (20%) 3. Annual report (19%) 4. One-on-one meetings (11%) 5. Regular trading updates (7%) 6. Analyst presentation (6%) 7. Media coverage and interviews (4%)	1. Annual report (23%) 2. Analyst presentation (17%) 3. One-on-one meetings (17%) 4. Investor road shows (15%) 5. Regular trading updates (15%) 6. Interim report (10%) 7. Media coverage and interviews (3%)
Most useful in rapid-growth markets	1. Investor road shows (25%) 2. Interim report (22%) 3. Annual report (15%) 4. One-on-one meetings (12%) 5. Regular trading updates (10%) 6. Analyst presentation (9%) 7. Media coverage and interviews (7%)	1. Regular trading updates (20%) 2. Annual report (17%) 3. Analyst presentation (16%) 4. Investor road shows (16%) 5. One-on-one meetings (16%) 6. Interim report (11%) 7. Media coverage and interviews (4%)

Forms of communication that CFOs, and investors, find most useful in providing information about investments in developed and rapid-growth markets.

"When investors meet CFOs, what they're really trying to test is their character. Are they ... an advocate or reporter?"

Glen Suarez, Deputy Chief Executive, Knight Vinke

Top tips for CFOs in communicating with investors

Know when to disclose to the market. If a CFO is asked the same question more than three times by different investors, it is probably time to think about communicating that message to the market more broadly.

Admit when things don't go to plan. Investors will be suspicious of a CFO whose company never seems to make a mistake. By admitting to investors when problems have occurred, and explaining what actions have been taken to rectify them, finance leaders will earn the confidence of investors.

Build relations with investors in good times as well as bad. During good times is precisely when companies can build goodwill and ensure that investors remain committed when times are more challenging.

Be transparent about sources of funding. Investors and rating agencies are critical of companies' current disclosure on sources of funding and committed lenders.

Be consistent with investment criteria. Investors like predictability, so it helps to maintain discipline over the criteria for making investment decisions and the threshold of risk appetite.

Give investors exposure to a broader group of individuals. By giving investors access to a broader group, including the board and local, rapid-growth market management, companies can build greater confidence in the quality of the company's broader management.

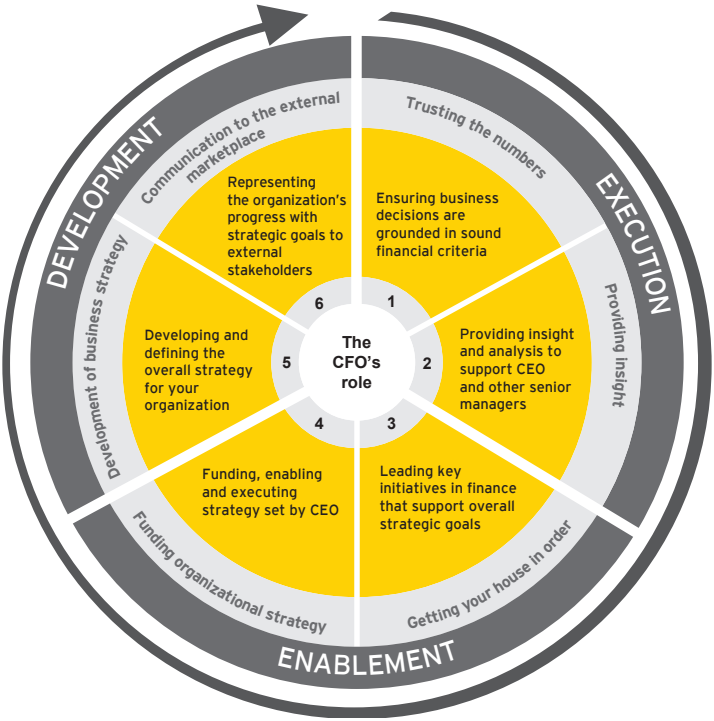
Bear in mind the local competition. In many rapid-growth markets, local companies are growing in stature and ambition. To compete effectively for scarce capital, overseas companies will need to articulate to investors a clear set of advantages over their local peers.

Articulate a "Plan B." Explaining to investors what the plan would be in case of a shortfall shows openness and a willingness to consider alternative scenarios.

Avoid surprises. Investors expect to be informed about key decisions. Making sudden changes in strategy without first laying the groundwork with investors is sure to cause problems.

The CFO's role

Central to the report, and to those that follow, is the CFO wheel – EY's view of the core elements of the CFO's role.

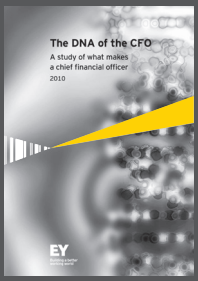


We believe these six segments represent the breadth of the CFO's remit. The leading CFOs we work with typically have some involvement in each of these six – either directly or through their team. While the weighting of that involvement will depend on the maturity and ambition of the individual, the sector and scale of the finance function and economic stability, they are all critical to effective leadership.

There are core skills, areas of knowledge, experiences and relationships that are needed to excel in each of these six areas of the role. Further information on these are available within other CFO titles: *The DNA of the CFO* and *Finance forte: the future of finance leadership*.

Our CFO program

This is one of a series of studies from our CFO program, which we hope brings something different to the CFO of today and tomorrow. The program seeks to provide insight and guidance on aspects of personal interest to the CFO as they seek to develop themselves, their teams, and learn from others within their community. Other publications from the program include:



The DNA of the CFO
A study of what makes a chief financial officer

Finance forte
The future of finance leadership

The Master CFO Collection

A collection of studies on particular events and experiences that CFOs encounter as part of their role.

(Vol. 1)
Back seat or center stage?
CFOs and the media

(Vol. 2)
What lies beneath?
The hidden costs of entering rapid-growth markets

(Vol. 3)
A tale of two markets
Telling the story of investment across developed and rapid-growth markets

More information

To request a copy of any of these studies, or for further information on our program of investment in CFOs across EMEIA, please go to www.ey.com/cfo or contact your local EY representative.

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