INTRODUCTION

In this year’s Chief Future Officer series we assess the strategic might of mid-sized organisations and examine the role of a long-term vs. short-term ‘Game Plan’ as an indicator of growth and foundation for success. In this report, a Game Plan signifies a three to five year proactive business strategy.

We received candid views from 252 Australian CFOs and 40% of them shared they had a long-term Game Plan, once the domain of only larger companies. Today we see more of the mid-market segment actively adopting a more structured, longer-term view to business planning and the good news is the hard work is paying off.

Those with a longer-term Game Plan are more confident than those with a short-term one. They are less risk averse, set more ambitious growth targets and are ultimately more successful, responding to new market opportunities, and undertaking radical as well as incremental innovation. In short, taking a long-term view is a key indicator of higher growth and success.

This exciting discovery challenges the thinking that short-term planning is sufficient for today’s mid-sized organisations. We uncovered that those CFOs with a Game Plan are delivering game changing growth and effectively evolving to withstand aggressive competition in cluttered markets. They are the ones that will survive and thrive.

We hope this report prompts you to assess your own strategic framework and that you compare it to the findings within. Ultimately will it get you to where you want to be in five years time or is there work to be done?

We invite you to join the conversation at chieffutureofficer.com.

Martin Seward
Vice President & General Manager,
Small & Medium Enterprises
Global Commercial Payments
American Express Australia and New Zealand
FOREWORD BY
CHRISTOPHER PYNE
MINISTER FOR INDUSTRY, INNOVATION AND SCIENCE

Initiatives to foster collaboration between businesses and the research sector are also good news for the mid-market sector. These include reforming funding incentives so that more university funding is allocated to research done in partnership with industry.

The Agenda also seeks to foster a passion for science, technology, engineering and maths in the next generation, and updates our visa system to attract more overseas entrepreneurial talent.

This white paper is an invaluable contribution to understanding attitudes within the business community to the innovation challenge facing our nation.

I thank American Express for commissioning this research and commend its Chief Future Officer program which aims to inspire CFOs and promote an innovative mindset in Australia’s business community.

With science and technology changing how we live, work and communicate, ingenuity has never been more important to assuring Australia’s prosperity. Our progress in the years ahead will be defined by how well we seek out new ideas and harness them for commercial success.

The Australian Government’s National Innovation and Science Agenda is a blueprint for creating an agile and entrepreneurial 21st century economy. It comprises Australian Government investment of $1.1 billion over four years.

Accounting for a third of Australia’s GDP and spanning all sectors, it is vital that mid-market organisations embrace the innovative spirit driving our economic plan.

Our Agenda is designed to spur businesses like these to embrace future opportunities. In particular, mid-market organisations may benefit from new rules on depreciation deductions for intangible assets and more user-friendly employee share schemes.

KEY FINDINGS
SUMMARY

PRESENCE OF A GAME PLAN

77%
of mid-sized companies are navigating with a Game Plan

HOW CFOS VIEW INNOVATION

80%
of CFOs agree that innovation is a company priority

NO GAME PLAN STAGNATES GROWTH

50%
of companies with no Game Plan predict zero growth

YET

52%
of organisations don’t believe they’re evolving as quickly as they need to

GAME PLAN INVESTMENT SHORTFALL

70%
of organisations are spending less than $100,000 on innovation this year

2016 BUSINESS PRIORITIES

69% Growth
57% Technology Enhancements

50% Operational Excellence
44% Upskilling and Hiring Staff

INNOVATION SPEND RANKING BY INDUSTRY

CFO’S INVESTMENT CHALLENGE

60%of CFOs find it challenging to access capital for growth

This document contains interactive elements. Click on the symbol for more detail.

RESEARCH METHODOLOGY
Today, businesses can no longer afford to plan for the short-term, they need to look further ahead with a three to five year plan to harness innovation and growth.

The most successful mid-sized businesses have a great Game Plan - a strategic five-year plan that proactively maps out how the organisation will harness growth opportunities and address short and longer-term threats.

As CFOs ready themselves for 2020 and beyond, their role has shifted.

Modern CFOs are no longer solely responsible for managing the company’s finances, it’s clear they also drive growth and champion innovation. CFOs told us that a robust Game Plan equips them to move faster and achieve more aggressive targets.

Interestingly, larger companies only have a slightly higher propensity to develop and implement long-term Game Plans.

“Every year we have a retreat with the business owners and executive team. Last time we put together a plan that outlines where we want to be in 2020 and that’s what we work off.”

NSW Services Company, $10M - $50M Turnover

77% of mid-sized companies have a Game Plan

23% of mid-sized companies have no Game Plan

WHAT DOES A GAME PLAN LOOK LIKE?
NO GAME PLAN STAGNATES GROWTH

IF YOU DON’T PLAN FOR GROWTH YOU ARE UNLIKELY TO ACHIEVE IT

Long-term planners generate higher growth while short-term planners stagnate

Comparing with last year, mid-sized companies are relatively consistent – with 50% targeting single digit growth and 30% expecting double-digit growth in the next 12 months.

Interestingly, organisations with long-term Game Plans have the most aggressive growth targets - 30% targeting double digit growth - while half of organisations with no Game Plan expect zero growth. Clearly an absence of long-term planning is constraining the growth of many organisations. This begs the question: “Could this be due to a lack of resources, organisational structure or business priorities?”

Game planners prioritise innovation, technology and people

- **69% Growth**
- **57% Technology Advancements**
- **50% Operational Efficiency**
- **44% Upskilling and Hiring Staff**
HOW CFOS VIEW INNOVATION

In the quest for long-term growth, 80% of CFOs agree that innovation is a company priority. However, the challenge is that 40% say their organisation has failed to bring any new product or service innovation to market in the past three years.

For a nation that needs to reinvigorate its economy post the mining boom, that is a big number to swallow and may explain why Australia ranks 21st out of 32 countries surveyed for innovation in the global OECD rankings.1

“Our past few years we haven’t had a fantastic record with innovation, from the perspective of providing new and exciting things to patients that differentiate us from our competition.”

QLD Healthcare Company, $10M – $50M Turnover

Worryingly, half of CFOs believe their organisation is not evolving as fast as it needs to and most surprisingly think that innovation is done in an ad hoc manner rather than strategically planned. These views are most common in organisations that lack effective Game Plans, further highlighting their importance.

These findings suggest Australia can be a tough place to bring new ideas to market and our innovation performance may leave us vulnerable to new threats. Australia has one of the weakest levels of networking and collaborative innovation when compared with other OECD nations.1

To become an “innovation nation” we must call on Government, industry and academia to prioritise innovation streams and work collaboratively to enable the successful advancement and commercialisation of new ideas.

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80% of CFOs agree that innovation is a company priority

40% of organisations have failed to innovate in the past three years

52% of organisations see themselves as not evolving as quickly as they need to

“We’re always trying to find better ways to do things, but we do need to balance that up against the cost of putting it in place, and if there is going to be the work to justify it.”

VIC, Construction Company, $50M – $100M Turnover

The majority of CFOs (78%) surveyed are aware of the need for outward looking strategies to help them prepare for changes in the market. A concerning 23% of survey respondents say their organisation is inward looking, less aware of disruptive threats and slow to respond.

When asked to describe their organisation’s level of agility, over half of CFOs say they are scanning the competitive environment to anticipate market changes and using their scale and strength to evolve. Those organisations that have a robust Game Plan were most likely to be alert to new opportunities and able to respond quickly.

CFOs say that by having a Game Plan they have identified business priorities and have spent time thinking about how innovation funding could support their business. They are more confident in evaluating innovation priorities, and can move more swiftly to capitalise on new opportunities as they emerge.

Game planners embrace both radical and incremental innovation

CFOs have varying definitions of innovation but they consistently talk about two main themes:

1. **INCREMENTAL CHANGE**
   - Incremental change is about ensuring their offering remains relevant and up to date.
   - Radical change is about major changes or improvements to existing products, processes or operations.
   - Radical game-changing innovation is most common among organisations with long-term Game Plans. Those CFOs not undertaking radical innovation are less forward thinking in their planning and feel “that the potential for this type of innovation is limited in their industry.”

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GAME PLANS GIVE DIRECTION

Andrew Cromie, Chief Financial Officer, Beaumont Tiles

“With a Game Plan comes more structure and accountability. Before you start a new initiative you calculate the costs involved, resources required and the payback period. That way you can determine if the project will proceed before you waste any money and then track the progress and report on the financial impact.”

Andrew Cromie
Chief Financial Officer, Beaumont Tiles

Where innovation is effectively integrated into an organisation’s Game Plan, the decision making process about whether to invest funds is much more structured. Of those businesses willing to commit significant funding to innovation, there is high awareness of the need to critically evaluate each initiative.

Key criteria include:
- Costs vs. current approaches and alternatives
- Potential short and long-term benefits
- Time and opportunity cost
GAME PLAN INVESTMENT SHORTFALL

To realise a long-term strategy, CFOs need to invest in innovation today that will drive sources of revenue tomorrow. The unsettling finding is that mid-sized organisations are not investing enough. 70% of Australian mid-sized organisations intend to invest less than $100,000 in innovation within the next 12 months. Based on a business with an annual turnover of $50 million, that’s only 0.2 per cent. Compare that to the average amount spent on research and development by the world’s top ten most innovative companies at 7 per cent which is 35 times that amount².

The most commonly identified barrier to innovation in Australia is a lack of access to additional funds, with 60% saying this is moderately to very challenging.

Harnessing the Government’s National Innovation and Science Agenda to fuel growth

When Australian Prime Minister Malcolm Turnbull launched The Government’s National Innovation and Science Agenda in December 2015, it was heralded as the start of the “ideas boom”.

The role of the Government in fostering innovation is undisputed – 82% of CFOs surveyed believe the Government plays an important role in helping businesses innovate.

And there is good reason for this. According to the OECD, firms receiving public support for innovation invest 40-70% more in innovation than those that do not. Public support includes financial support via tax credits, grants and loans.

“We’re going to employ an innovation person. So we’ll definitely be investigating the potential for R&D concessions [from the Government].”

NSW, Property Company, $10M-$50M Turnover

Of those CFOs that were familiar with the Government’s Innovation and Science Agenda, 80% believe it will improve the position of Australian businesses on the global stage.

There is significant appetite among CFOs for more information on how the Agenda relates to mid-sized businesses in industries outside of the technology and new sciences sectors.


²http://www.strategyand.pwc.com/global/home/what-we-think/innovation1000/top-innovators-spenders

INNOVATION INVESTMENT IN 2016

- $30% More than $100,000
- $38% Less than $100,000
- $31% Haven’t allocated funding

The sector most likely to recognise the importance of greater investment in innovation is the manufacturing and distribution sectors, where fear of failure is high.
“We’re not entitled, because of our success, to stay in business. We have to earn that every day. The way we do that is by serving our customers and the only way to serve customers well is innovating every day to make their lives better.”

Ken Chenault, American Express Chairman and CEO
Australian industry is at a critical point of change and re-orientation as we respond to unprecedented world events. To thrive, CFOs from mid-sized organisations need to look beyond the here and now. Those companies that have adopted a long-term plan are performing strongest against their peers and have the following powerful indicators of future success:

- **Today, the CFO’s role is to help create a culture of growth and innovation by managing expectations between short-term earnings and long-term growth.**
- CFOs who take the time to plan across all of these business priorities, are better equipped to ensure their organisations remain agile, and respond fast to new market opportunities and threats.
- Many CFOs are doing just that, while others in our survey spoke frankly about the challenges of short-term decision making and responding to competition, rising costs and economic uncertainty.
- As the Government rolls out its National Innovation and Science Agenda, CFOs have an opportunity to fire up their organisation’s innovation engine and lead this cultural shift.

The question remains: will CFOs adopt a long-term view of innovation and invest enough funds to compete with the dynamism of fast-moving start-ups, or the bigger budgets of corporate Australia?

**CONCLUSION**

Get a Game Plan, get ahead.

For more information on this research visit [www.chieffutureofficer.com](http://www.chieffutureofficer.com)
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