

Roadmap to 2020

Making the most of Hong Kong's advantages

2016 American Express Future-Proofing Survey



FOREWORD

PEER-BASED BUSINESS INSIGHTS



Mid-sized companies represent the most diverse and high growth sector in Hong Kong's economy. They occupy a unique position because they are confronted with unprecedented change and uncertainty looking ahead to 2020. The Hong Kong Special Administrative Region (SAR) is a major global trading hub and its mid-sized businesses are the most closely linked to the Mainland China economy. However, their contribution to the economy is often overlooked.

American Express has commissioned research for the second consecutive year to provide Hong Kong's mid-sized companies with peer-based insights on the future of this important segment.

Although the operating environment is challenging, the survey showed there are new opportunities for these growing businesses in the short-term. Hong Kong's mid-sized companies have recognized that near-term growth will come from managing the risks to their businesses while becoming more agile and adaptable throughout their organizations.

Mid-sized businesses consider it "mission critical" to have the ability to respond quickly to changes in the business environment, many of which are beyond their direct control. Businesses must create a roadmap to achieve this.

This year's future-proofing survey found that mid-sized companies are willing to put in significant efforts to develop successful strategies for the future in: cash flow and working capital management, engaging with Mainland China's changing economy, securing top quality talent, developing strong leadership, funding the future, deploying best-in-class customer service and investing in enabling technology and e-commerce. It is essential to develop an all-round strategy to cover every part of a business.

Please read our survey findings, and learn from other mid-sized Hong Kong businesses how they navigate to future-proof their enterprises towards 2020, and how does the peer business compare.

A handwritten signature in black ink that reads "S. Pendergast".

Stephen Pendergast
Vice President and General Manager
Global Corporate Payments,
Hong Kong and Taiwan
American Express International, Inc.

KEY FINDINGS SUMMARY

However,

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

FUTURE-PROOFING BRINGS SUCCESS

Have a clear plan

Seventy-four percent of mid-sized companies in Hong Kong said they don't have a specific plan or roadmap to future-proof their companies. The smaller the business, the less likely they were to have a strategy in place to get their businesses to 2020.

"Not having a plan in place makes things quite scary. It's not safe. We are tracking okay, but we don't know where we are going. We need to be more strategic."

**Imported Food Distributor,
US\$20M - 50M turnover**

More importantly, the 26% of the respondents who had a roadmap were considerably more confident about their future and their company's ability to execute the ongoing strategy. Having a roadmap in place builds execution confidence in the mid-sized sector.

"We used to be so concerned with just running the business that we never looked beyond that wall. Having a plan in place helped us identify our real risks and opportunities. What's more, we have much better cash flow performance."

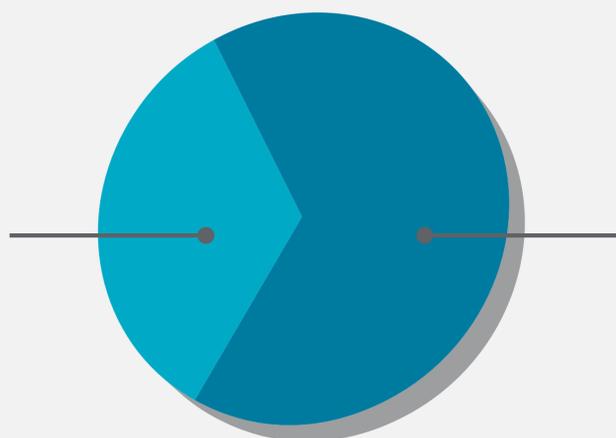
**Recruitment Company,
US\$20M - 50M turnover**

Those companies with US\$2M - \$10M turnover per year were working on a shorter, two-year outlook while larger firms said they have plans of attack for the next five years.

"We've become better at this stuff as we've grown. The growth has helped us consider our future."

**Light Manufacturer,
US\$50M - 120M turnover**

FUTURE-PROOFING PLANS IN PLACE
(% of Total)



Failing to plan is planning to fail

Not all risks can be anticipated, but the best finance decision makers are already creating multi-year game plans to future-proof against these unknown risks.

The most significant risk over the next three to five years is any slowdown in Mainland China, according to 59% of respondents. This is no surprise given Hong Kong's proximity to and heavy reliance on China's supply chain procurement. The stock market turmoil in early 2016 in China reminded Hong Kong's business leaders how important it is to have a risk management plan in place.

"China is incredibly important for us. We sell and source from the mainland. Movement in China's economy and demand, which we can't control, has a direct impact on our business."

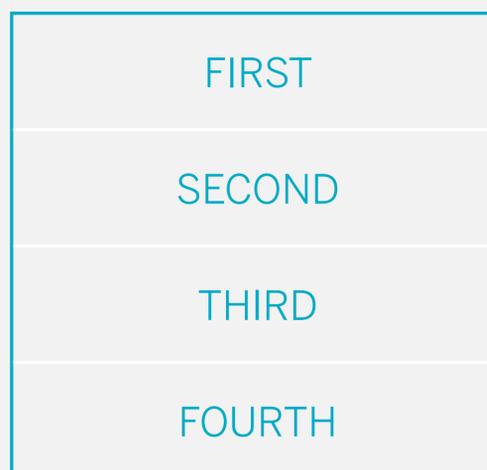
**Wholesale Distributor,
US\$20M - 50M turnover**

Cash flow and order volume was a top-three concern for 45% of respondents while 37% said local Hong Kong's political condition was one of the biggest risks. Finance decision makers also shared their experiences in managing daily cash flow concerns, heightened by the increasing challenge of both debt and equity funding.

"We're a small but fast growing business. Cash flow is our lifeblood and is something we worry about all the time."

**Transport & Freight Company,
US\$10M - 20M turnover**

THE BIG BUSINESS THREATS AND RISKS FOR 2017 (% of Total)



Getting a handle on cash flow

Maintaining a healthy cash flow will always be one of the top concerns for a business. With today's global economic headwinds and continuous regulatory changes, access to funding has become tougher and more inflexible. As a result, investment confidence among Hong Kong mid-sized businesses is starting to wane.

CASH FLOW IS ALWAYS A GREAT CONCERN



“Now that we have some scale in the business, we’re less concerned about funding arrangements and more focused on where we’re going to get our future growth from.”

**Retail Company,
US\$50M – 120M turnover.**

One concern of the mid-sized segment is finding capital to fund an effective future-proofing plan. The smaller the company, the greater the funding concern and the greater the importance of good cash flow management. Larger companies, meanwhile, are relatively confident in their ability to fund their plans, with capital already in place in many cases.

CHARTING YOUR COURSE TO 2020

Navigating challenges

Planning is the key to future-proofing, and this year's survey respondents were more proactive in planning for their future than those in the 2015 survey. Four out of five had taken future-proofing steps over the last 12 months, compared with the less than half of CFOs who reported such activity in 2015.

New marketing approaches (for example greater use of social and digital media) remained the largest targets for investment for 49% of Hong Kong finance leaders. Improving cash flow, overhauling billing, pricing and business models were also seen as critical initiatives.

Hong Kong CFOs must undertake key actions – creating a plan, investing in new marketing techniques, improving cash management and over-hauling billing and pricing practices - in order to future-proof their mid-sized businesses.

“We need to maximize the use of corporate credit cards in different ways and means. That has helped us in terms of getting us additional boosters to grow the business.”

**e-Commerce Company,
US\$10M -20M turnover**

Developing agility

Having no formal strategy in place was cited by CFOs as the biggest barrier to developing real agility. Lack of leadership support and a short-term mindset are also barriers these leaders must overcome.

“We’re a pretty big communications re-seller, a retailer but with a lot of support and maintenance revenue. We’re trying to stay ahead of the game and the competition but our market keeps changing.”

**Telecommunications Company,
US\$50M - \$120M turnover**

Since 2015 we have seen that once formal strategies are put in place and leadership teams embrace the idea of an agile business, the new challenges become short-term mindsets and inadequate funding committed to future-proofing.

More than 40% of finance leaders surveyed said their greatest competitive opportunity is in being agile and ensuring the enterprise can adapt quickly to changing business conditions and environments.

While smaller mid-sized businesses have been slow to develop roadmaps for the future and are the least likely to implement one, their size does afford them more agility.

The smallest mid-sized companies, with annual turnover of US\$2M - \$10M, see themselves as the most agile, able to change direction and adapt strategy and execution in response to market challenges.. Embedding this natural agility in the organization as it grows is seen as a major component to future-proofing the business.

“We need to be quick and responsive and not get locked into traditional ways of doing business. What we offer our customers is a listening post and then action and follow through.”

**Construction and Fit-Out Company,
US\$10M - \$20M turnover**

Those finance decision makers who have a roadmap are also reviewing their plans every six months to ensure they best capitalize on shifting conditions, revising their strategies in near real-time.

The larger mid-sized companies, those with annual turnover between US\$50M - US\$120M, are reviewing their future-proofing plan less frequently - on average once every 12 months. They generally see themselves as less agile than their smaller peers.

HONG KONG'S UNIQUE OPPORTUNITIES

Local advantages

Hong Kong finance leaders have a positive outlook. Confidence in hiring is up. Hong Kong was identified as the key business location and 90% of them saw clear opportunities for growth in HKSAR.

Nearly everyone identified specific advantages to being based in Hong Kong. Mainland China plays a leading role in this view, with a quarter of finance leaders saying their main advantage is- Hong Kong's access to Mainland Chinese markets for sales and supply chain needs.

In any tough environment there's a temptation to reduce headcounts. However, those businesses that are more successful are those finding and retaining people that can enhance a business' competitive edge is very important. Finance leaders strongly recognized their role in nurturing and rewarding exceptional people and contributors.

"We'd be nothing without our people. We only recruit from our employee network of friends and family so we keep the culture of our business."

**Hospitality Company,
US\$2M - \$10M turnover**

How much do companies expect to change in their headcounts?



4%

Increase

2.5%

Decrease

Are you confident that Hong Kong will grow further in near term?



89%

Yes

11%

No

The gateway to Mainland China

Local business leaders' top choice is to remain in Hong Kong for business operation. If they have to choose a new location, Mainland China was the most popular - with 34% choosing it. The mainland has a strong business bond with Hong Kong.

Two-thirds of local finance decision makers read China's recent 13th Five-year Plan, pointing to the strong bond between Hong Kong mid-sized businesses and the mainland. All respondents viewed it as either a positive or at least a neutral development for their businesses.

"Hong Kong is the only place we could base and run a business like ours which relies so heavily on business with Mainland China. We have people over there all the time building relationships with our suppliers."

**Real Estate Company,
US\$10M – 20M turnover**

With Mainland China prioritizes innovative science and technology in its reform agenda in the coming years, business leaders think that it is important to remain at the forefront. Smaller scale mid-sized businesses are in good position – as they are quick to adapt.

The Impact of China's 13th 5-Year Plan on Business

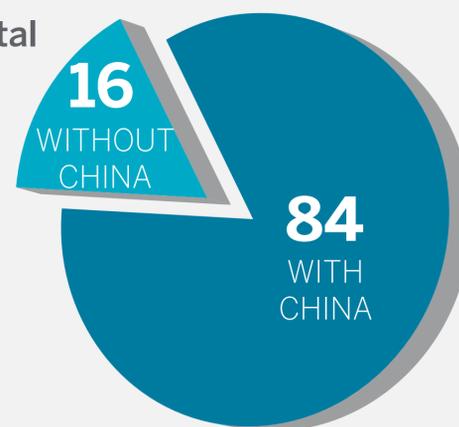
DIGESTED CHINA'S 13TH 5-YEAR PLAN

% of Total



RESPONDENTS DOING BUSINESS WITH CHINA

% of Total

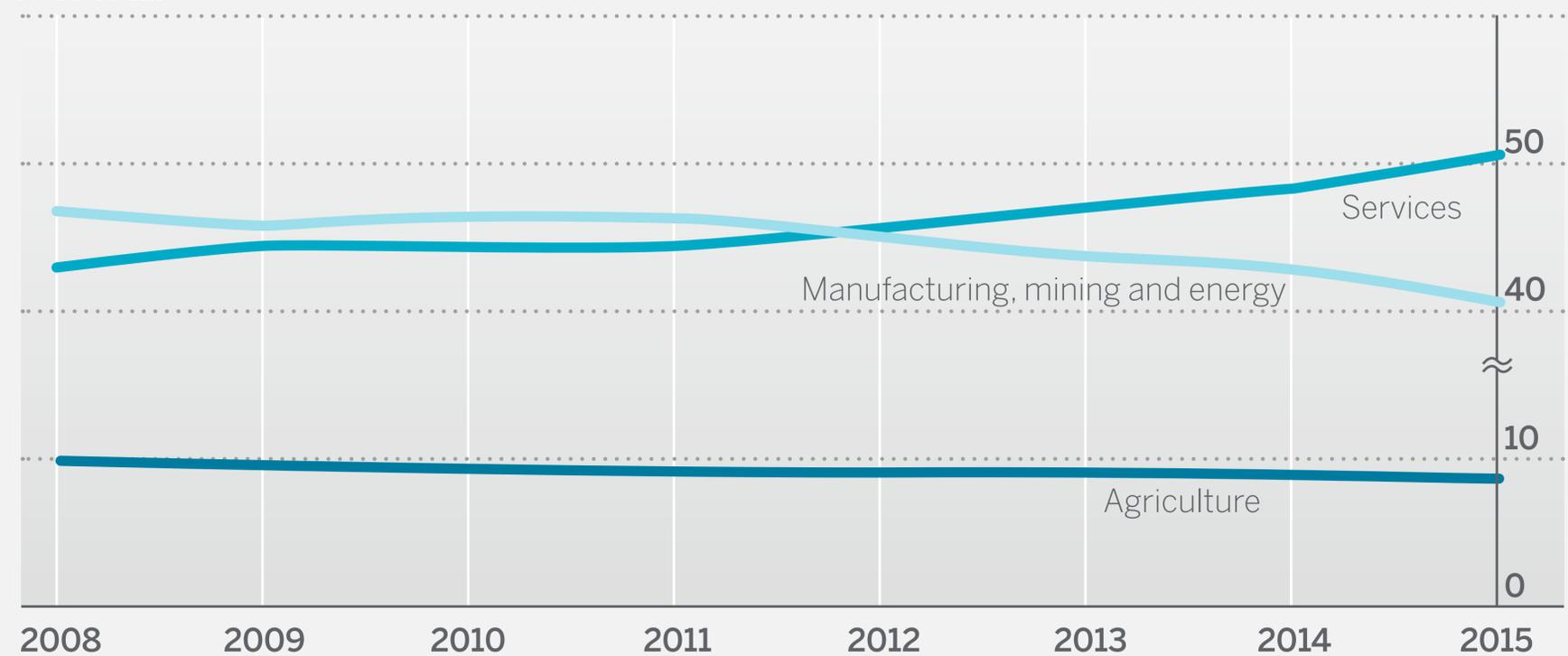


“Mainland China’s new road into tech and services is great for us. It plays to our strengths and we’re very excited about the future.”

**Education and Training Company,
US\$20M - 50M turnover**

CHINESE ECONOMY BY SECTOR

% of Total



We are still seeing strong growth in China's economy, especially in the Services sector.

Source: National Bureau of Statistics, PRC

Invest and innovate

According to the survey, companies still see people, as well as products and services as keys for their company's development and innovation needs. The increase in investment allocated to technology and customer service highlights the complicated nature of 'innovation' in today's world.

Business growth and the ability to adapt come from within an organization's leadership culture, according to respondents. Recruiting, managing and leading employees along with outstanding customer service and enabling technology drive innovative product and service.

“For us, innovation comes from our people and our technology. The combination of these two is where our future lies.”

**Wholesale Distribution Company,
US\$10M - 20M turnover**

Investment in development and future-proofing a company requires greater commitment from smaller mid-sized businesses than their larger peers. At the upper end of the size range, companies are allocating 6% of their annual turnover to develop and invest in their future-proofing plan. Smaller companies are typically spending double that in order to preserve their agile nature and ability to stay in the market in the coming years.

“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

CONCLUSION

FUTURE-PROOFING IS BOTH HELPED AND HINDERED BY BUSINESS SIZE

The story of future-proofing Hong Kong in the mid-sized business sector is divided between the larger and smaller businesses in this sector. On one hand, smaller companies are more agile without a plan for the future; the other hand, larger companies plan better but are not as agile. Based on these findings, all mid-sized companies should be able to find ways – get better future-proofing and make use of payment solutions to free cash flow – so as to achieve business goals and to prepare for 2020.

Most smaller businesses do not yet have a roadmap for their future and those that do lack confidence in their ability to execute these plans. These businesses see themselves as innately agile and are constantly reviewing their business direction, while having higher risk appetite.

Funding and access to credit is a real challenge for smaller businesses and their decision makers are less confident than their larger peers in their ability to source additional funding to future-proof themselves.

Larger mid-sized businesses are further advanced in putting their future-proofing plans in place. Nearly half of these leaders have plans implemented and are confident that when the time comes they will be able to execute.

They are less concerned about funding needs and their ability to source additional capital. It is these larger businesses, however, who see themselves as less nimble and slower to change in response to the increasingly volatile market and macro winds being encountered. Their ability to stay agile as they grow has become the major focus in their future-proofing.

These unique insights from American Express show Hong Kong businesses are well aware of the risks and changes taking place around their enterprises and the value in formal future-proofing plans, de-risking for sustainable growth and making agility a part of their company's DNA.

The successful mix for Hong Kong businesses is strong cash flow and working capital management, leveraging our Mainland China advantage, investing in quality talent, investment in technology and e-commerce and fresh marketing approaches. Having those factors in place and a strong future-proofing plan in hand will create a brighter future for any business.



About American Express Global Commercial Payments

Through its Global Commercial Payments division, American Express offers a suite of payment and lending products that help businesses and organizations of all sizes gain financial savings, control and efficiency. Global Commercial Payments provides solutions for travel and everyday business spending, cross border payments, global currency solutions, and business financing.

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