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## Should You Hire a CFO?

*Hiring a chief financial officer in a small, growing company can be a big hit to your overhead. But a CFO can pay for himself easily and quickly.*

Your business is growing. The idea that you long dreamed of is taking hold. The initial business plan, albeit drafted on a few napkins and envelopes over time, has come to life. The friends and family financing that got you off the ground has carried you this far. You have worked out the kinks. The concept is valid.

You have gained solid market acceptance for your product or service. You have solved the problems in manufacturing the product or the way you will provide the service. Better yet, you've got an edge on the competition. Your uniqueness gives you a niche. You've got the folks on board to move the product/provide the service to that next level. Yes, the long nights and weekends you spent birthing this business are about to pay dividends.

So how are you going to manage the growth? Is the "seat of your pants" approach still viable?

It takes a complete management team to overcome the challenges of growth, including expertise in the back office. It's crucial to manage your cash, collect receivables, determine your financing options. But how are you going to manage all of that, provide the leadership and mental toughness needed by your folks in the field and in the plant, and, well, just flat keep the wheels on and turning through the challenges of this growth phase?

There are several signals that indicate the need for help on the financial side. The strongest signal for the entrepreneur comes when he is unable to attend to the things necessary to grow the business and implement the business plan, when he is burdened with running the back office. Use and availability of time is the major signal that the need is there to add to the financial management of the company.

The signs are often contradictory. The books are well kept, everyone is paid on time, the CPA is happy with the basic financial data as prepared by the company, and you sure don't need to add to overhead at this point. But the chain that has you secured to your desk will determine if you grow to the next level or remain in the could have/should have category.

What can a senior level financial manager — or chief financial officer or controller — do for the entrepreneurial firm? To state the obvious, perhaps, the CFO fills the void of having somewhere to hand off those issues of collecting receivables, managing cash and determining financing needs and options. Competently handled, the chief executive officer can confidently use his time to do what he does best — run the business and get the customers. Yes, a CFO's duties expand well beyond those noted so far, but time and again, analyses of entrepreneurial firms and their shortcomings reveal that cash flow management, collection of receivables and thinking though



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and evaluating financing options before the cash crisis hits are the major shortfalls and unattended matters in entrepreneurial firms.

Sure, but what about that overhead factor? What is this CFO going to cost and what will you get from him? The actions of a competent CFO will contribute substantially to a company's profits in quantifiable and nonquantifiable ways. For example, think of those receivables sitting out there at 60 or 90 days or more. You pay interest on your line of credit. Your customers are ever so grateful for financing their operation.

But imagine turning your receivables 10 or so days sooner on average. That one is a benefit that can be readily calculated and realized in cash. And what if you don't take advantage of each vendor's discount for early payment? In a cash neutral or

negative cash flow situation, vendor financing — legitimately negotiated, planned and carried out, can be a tedious process, but a rewarding one in cash availability. Once again, a quick interest cost calculation can determine cash savings in that area.

But who can measure the value of knowing that you are going to need a cash infusion, the amount that will be needed and the timing of those needs when you are chasing growth to the next level or cutting losses in an economy such as ours today? We all know that it is easiest to get money when we don't need it. And we all know the cost of trying to get money when you do need it. You can't put a dollar figure on the latter, but the benefit is immeasurable. Ask the entrepreneurs who have been through that one!

A competent CFO will help managers at all levels and areas of the company interpret the maze of numbers that come out of the accounting department each month into a language that allows line, staff and field management to understand how their portion of the business impacts the company's overall operating results. Combined with appropriate incentive plans, this information can be the key to getting managers lined up in the same direction when it comes to decision making. Good managers make good decisions, but only with timely, accurate and understandable information on which to base those decisions.

So the whole management team benefits from the addition of this financial guru, and suddenly the benefit of this staff addition takes on exponential benefit as one of the missing links is added to drive the profitability of the business.

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