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OUTSOURCED CFOS: IT'S TIME. IT WORKS. HERE'S HOW...

BY CHRISTOPHER W. FREY

Did you know that the expected tenure of a CFO at a public company is between two to four years? Did you also know that the expected tenure of a CFO at a young technology company is less than one year? (Register.com had four CFOs between June 2000 and March 2001.) These statistics, while startling, should not be surprising when you consider the different roles that CFOs play inside organizations.

For public companies, a bad year or two usually requires that the CEO shake things up, or risk losing their own job. A CFO change buys the beleaguered CEO some time. The young technology company, racing up the corporate life-cycle curve, can easily outgrow the skill sets of their CFO: the problem solving triage CFO, versus the expansion and infrastructure CFO, versus the IPO (going public) CFO, etc. These company growth stages require specific knowledge and skill sets from a CFO, and most rapidly growing young companies cannot risk on-the-job training for their CFO.

Many small and mid-size companies do without a CFO, usually a cash flow decision, until a crisis event forces the issue. The CEO, accounting manager and outside accounting firm handle the basics. The risk here is significant, as important issues get missed in the split of responsibilities. The CEO is unable to devote time to the financial area as growing the business takes priority, and appropriate financial skill sets are not available on the team. The answer to this dilemma is Outsourced CFOs, from whom small and mid-size companies can obtain the right skill sets, when needed, on a value added basis.

Outsourced CFOs...what are they? The best way to answer the "what" question is by explaining, "what it's not."

First, it's not a placement or recruiting service. If a permanent hire results, that's an added benefit. But, the priority should be on handling the current business issues. If a company grows according to its strategy plan there may be two or three different Outsourced CFOs before a full-time CFO is needed. Having this flexibility is key.

<u>Retainer CFO Assignments</u>	<u>Advisory Board Services</u>	<u>Outsourced CFO Projects</u>
<ul style="list-style-type: none"> • On Site, On Staff CFO for Two or More Days per Week • Full Charge CFO & Management Team Member 	<ul style="list-style-type: none"> • Retainer Services for One or More Days per Month • As Needed Participant At Meetings • Project Design & Oversight 	<ul style="list-style-type: none"> • Financial Plan Development • Management Systems Development • Infrastructure Development and Implementation

Second, it's not an accounting or tax service. Having a CFO doing accounting or tax work is not a value added activity; these tasks are best handled by the experts. Your CFO should ensure it's being done, and correctly. But that's it; the issue here is cost/benefit. A good CFO will price their time accordingly, and handling routine transaction work is generally not cost effective.

And finally, most small and mid-size businesses do not need a 24/7 CFO. However, most would benefit from having a highly qualified financial professional on their management team. Coming in twice a week, or several times a month, taking responsibility for the financial area, handling strategic financial issues, and generally being available for business meetings and crisis' management. These are high value added activities that can be handled on a less-than-full-time basis.

OK, Outsourced CFOs work, but you may be asking, "How can it work for me?" Three concepts are critical to understanding and working with your Outsourced CFO: good communication, added management capacity, and value added activities.

Good communications, always critical to success, is a must for an Outsourced CFO situation to work. Technology enabled communication is what makes this work – wireless, messaging, voicemail, e-mail, Internet – reducing the cycle time between information sharing and decision making activities allows business to continue regardless of physical location. You must be comfortable with these communication tools and actively use them. If you need your management team sitting beside you 24/7 than an Outsourced CFO is not for you.

Additional management capacity, on a less-than-full-time basis, is the underlying premise for an Outsourced CFO. There must be a real off-loading of responsibilities from the CEO for this to work effectively. Unless the CEO realizes a benefit in terms of time spent – tasks, projects, and responsibility delegated – than utilization of an Outsourced CFO is not optimized. Critical to having this occur naturally is including the Outsourced CFO on the management team. Real value can be added in meetings where issues are discussed, ideas are generated and tasks are assigned.

Value added activities are the cornerstone for successfully utilizing an Outsourced CFO. Work plans and scheduled time play a critical role here. The work plan ensures that the Outsourced CFO is spending time on the projects and tasks that are most critical to the CEO and the business. Establishing a schedule of regular on-site time for the Outsourced CFO ensures that the organization knows when and how they can have face-time with the CFO. Intangibly, the time schedule also provides a framework for scheduling meetings and deadlines for deliverables.

Successful businesses focus on their customer value proposition, limiting the time and resources they spend on non-core activities. Outsourcing provides businesses with the opportunity to hire experts, on a value added basis, to handle non-core activities. For many small and mid-size companies the CFO position is a critical, non-core, function that can be successfully outsourced.

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