

THE RISE OF FRACTIONAL USE CFO SERVICES

BY GARY HAYES



In order to stay competitive and survive the current economic downturn, businesses need to examine all aspects of their operation to identify cost savings and drive efficiencies. Companies that can do this successfully will be rewarded with increasing market share and improved profitability.

One way companies typically can cut expenses is by outsourcing non core functions of their business. Historically, outsourcing has been successfully used in the information technology area and customer support functions. Within the financial and administrative area outsourcing is typically limited to transactional level functions such as accounts receivable and accounts payable processing. However this is beginning to change.

Over the past few years, companies are increasingly turning to part time senior level financial management resources within the small to medium size marketplace. Small businesses have always had the need for a CFO; however, retaining these resources on a full time basis is often cost prohibitive. As a result, many companies attempt to manage their financial operations without the proper level of talent in place. In many cases the small business owner will try to handle these tasks on their own even though finance and accounting are not their core strengths.

The common perception is that the company will save money by handling

these functions themselves with CPA's handling the year-end tax returns. Consequently the companies are not adequately prepared to handle difficult economic times as they have poor financial reporting to understand their business operations, no forecasting process in place and poor cash management practices. This can lead to their inability to obtain adequate bank financing when needed as the books and records of the business have not been adequately maintained. Other financial problems that are common with small businesses include:


- an inadequate accounting system and staff;
- an increase in the financial complexity of the business that has outgrown the capability of existing staff;
- a lack of financial bandwidth on a specific project such as a M & A transaction;
- an inability to respond to growth opportunities due to not understanding the relevant financial implications; and
- a lack of understanding on where company profitability is coming from.

Fractional CFO's and controllers help their clients understand and manage these challenges. In addition to ensuring accurate monthly reporting, CFO's create financial projections of the client's business. This helps management anticipate cash needs subject to different revenue

outcomes. It also helps them when seeking bank financing in advance of the need. Banks in general are reluctant to lend when companies are in trouble (especially today) so being able to anticipate the need well in advance and packaging up those requirements to a bank in an effective manner helps in obtaining adequate debt financing when needed.

In any economic climate (but especially a downturn), it's critical for business owners to analyze and understand their business on a regular basis. In order to accomplish this, owners must have accurate and timely financial information on which to base strategic decisions on.

Finding the time to do this is difficult, and having an experienced CFO to accumulate accurate data, interpret the data, and communicate it to the management team is critical in guiding a company through the difficult times. For small companies these tasks can be effectively handled on a fractional use basis allowing the company to only pay for what they need.

On average most small businesses (subject to size) should only spend between \$40,000 and \$80,000 annually, which far less than what a fulltime CFO typically costs. We now see an increase in awareness with small and medium size businesses of these needs and the recognition that outsourcing your CFO function is an acceptable and prudent practice to consider. As the bottom line becomes increasingly scrutinized in the current climate, we expect that this trend will continue to accelerate. 

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