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Why your business will fail without a CFO

(The essential details you must know)

by

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You went into business to succeed and make something of yourself. It may have been about the money, the power, the freedom or just the desire to do something you really feel passionate about.

And how's that working you for you? Most people find that they're soon in a position far different from what they expected when they started out. The money's always a few months away, the power only extends as far as the front door of the office and freedom is a long forgotten dream.

And as for doing what you feel passionate about, well it probably didn't include trying to figure out a profit and loss and balance sheet or trying to explain your business to your accountants and your bank manager.

So why is your business doomed to fail without a CFO?

Firstly, with no CFO you have to make all the major financial decisions alone. And unless you trained as a chartered accountant, you're unlikely to be making those decisions with all the experience, training and judgement that they need.

Even if you do have the experience, training, qualifications and judgement to make the decision, you're still making them alone with no-one to guide you. Your accountants, if you use any, will be happy doing your books and audit reports but ask them for some strategic finance advice and they'll invariably scowl and explain at length why they can't, as it may be a conflict of interest.

And let's face it, if you're a strong CEO then your fellow directors and employees are unlikely to disagree with you, so you can't even trust the people you brought in to help you.

Secondly, the finances and cashflow of your business are its lifeblood. If they're not being properly managed and controlled then your business is on a downward spiral. And your financial position can change very rapidly, so if you don't have any one keeping their eye on the ball you could find yourself without a business.

Thirdly, if you're not considering the longer term strategic financial position of your company then you'll simply ride the wave of business growth, a plateau and then a gradual decline that so many entrepreneurs have done before. And you'll end up with little or nothing to show for all your time, effort, emotion and hard work.

A good CFO will support you financially, commercially and strategically with practical advice and guidance designed to protect, enhance and grow your business. They'll make sure you have the controls and reporting systems to manage your business effectively and efficiently. They'll also ensure you stay on track for your ultimate goal, whatever you decide that might be. Without one, there's potentially a big hole in your business.

So what can you do?

Here's a 7 point plan for putting you on the right track today.

1. Decide what you want

Where do you want your business to go and what do you want to get out of it? Are you building a lifestyle business with a nice salary so that you can sail at the weekends and golf in the mornings? Do you want to build the business up and then sell it for a huge sum so that you can retire to a villa in Spain? Have you ambitions to grow the company through acquisition and create a vast multi-national corporation?

Do you aspire to an IPO, floating on the public markets? Or do you have harbour a burning desire to make a difference in the world through ethical employment practices, environmentally friendly policies and carbon neutral products and services.

You may want all of these, a combination of them or something else entirely. The key here is to decide what it is that you ultimately want and write it down. If you don't do this now, then you'll be destined to drift into the world of aimless business owners, feeling trapped in their own companies with nothing to excite them about the future.

Decide what you want and write it down to make sure it sticks. Now you know the direction you want to follow and you can move on to the next step.

2. Describe what your company needs to look like

Once you know what you ultimately want then you can start to see what your company will need to look like to achieve it. In most cases the company will need to be able to run without you having to be there every day.

If the company can't operate without your presence then you severely limit your chances of taking time off, selling up, floating (your time will be demanded by investors, analysts, PR and many other essentials), or pursuing anything other than desperately trying to keep the day-to-day operations running.

It's not about making yourself completely dispensable. It's about making sure you're building something that looks to you for the big decisions but has enough people you trust to run itself in your absence.

Your ultimate goal for the company will also determine the size of turnover you need (this will influence sale opportunities and chances of an IPO), the level of profitability, the amount of cash reserves, the number of employees, the range of products and services you provide and the markets you'll serve.

You'll need to understand all the implications of what your company will look like and how this will match to what you want. You may need to seek specialist advice in this area to make sure you make the right decision.

3. Identify the resources you can access

Next you must identify the resources you currently have access to and understand what they really provide. Who do you turn to for advice and guidance? Who are your advisors and supporters? What specialist skills do they have and how do you use them?

Your list might include your accountants, lawyers, tax specialists, financial advisors. It may also include friends, colleagues, investors and members of your family. Consider what they can do for you and what services they provide. And in the case of the professionals, consider the cost of what they provide.

As you go through this process you should be aware of the difference between what people say they can help you with and what they can really do.

Your accountants may be great at keeping your books, filing your accounts and completing your tax return. However, have you asked them whether they have had direct experience of building and growing a business, making acquisitions or completing a successful exit? Can they marshal the resources needed to fulfil your requirements? Do they understand the day-to-day challenges of running a business and dealing with all the commercial and personnel issues?

As you go through your list, identify the resources that you're missing. With your ultimate objective in mind, what else do you need access to?

And as you consider your family and investors, think about who is relying on you to succeed. Who is looking to you to make everything work? And are you using the best resources you can to ensure success?

4. Make a list of the people you can really rely on and consider who you trust to look after your business and its finances

Now think about the people in your business. This includes your fellow directors as well as your employees. What do they bring to the business? What are they in it for?

Are they shareholders in the company or just salaried employees? Do they have your best interests at heart or are they in it for themselves? Do they have the same passion and enthusiasm for the business that you have, or is it just a job?

Who do you trust to look out for the best interests of your company? Who do you trust to tell you bad news as well as good? Who do you trust to be truthful and give you the best advice?

If you're still making all the decisions in the company then you've already answered these questions. If you check every payment and every expense, then you know the answer. If you have to be involved in every meeting then there's only one person you really trust, and that's you.

If you have people you can trust then that's great and it shows you are heading in the right direction. Now can you trust those same people with the finances and the financial future of the company? If the answer is yes, then the next question is "are those people performing the highest value activity for their skills?"

If your marketing manager is also giving your strategic finance advice then what's being left out of your marketing? If your Operations Director is talking with the accountants then how are your operations missing out?

If you believe you have it all covered and have someone dedicated to finance then you just need to ask yourself whether that person has all the skills they need right now?

5. Determine how much you need a CFO and the qualities you want in your CFO

Whether you have someone looking after your company finances and financial strategy or not, it's still worth going through this exercise.

How much you need a CFO really depends on your answer to question 1. If you've been through that exercise and decided that all you really want is a small business that pays you a basic salary and keeps the wolf from the door then your needs are limited.

If you are happy to risk losing the business and deal with the consequences when they arise then you're not ready for a CFO yet. If you have serious aspirations to achieve anything of significance in terms of money, reputation or size then you have a serious need for a good CFO right now.

Once you've decided you need a CFO then begin to identify the specific skills and characteristics you want them to possess. It goes without saying that you want someone reliable who you can trust. You also want someone who's as keen and enthusiastic about your business as you are.

After the essentials such as qualification with a reputable professional body (e.g. ICAEW), appropriate corporate experience (start-up, early stage, mid-tier and blue chip) and practical experience (growth, acquisitions, disposals, fund-raising etc.) the other qualities you might want to consider are:-

- A confident and clear communicator
- Broad knowledge of different industries and businesses
- Practical hands-on experience (not just a 3rd party advisor)
- Flexible in their approach
- Board level experience
- Ability to think strategically and commercially
- Experience of resolving serious issues
- Successful track record in funding, growth and exits
- Someone you can rely on as a trusted advisor
- Someone who can understand your business and your objectives

You should also give some thought to the most appropriate background experience to your CFO. If you're an early stage tech company then someone with a large PLC background may not be the best choice as they won't be used to the issues and challenges that the smaller companies face.

You can add more to this list and make it specific to what you want for your company. A good CFO should be a business partner who can give you complete confidence in your company, a sounding board for your views and a trusted colleague.

6. Decide if you want someone full-time or part-time

At the early stage of a business it's not always necessary to have a CFO around all the time, so it's good to have the flexibility of a part-time position. What you do need is a level of access that ensures that you can speak to your CFO when you really need to. You also want to know that they will deliver what they promise, on time.

The challenge with a full time position is that to get someone with all the qualities that you really need will be expensive. And it's not just the salary, it's all the employment costs and office costs that go along with it. You can get a lower cost full time resource. Many financial controllers seek to pitch themselves as FDs or CFOs. However, this type of person is unlikely to fulfil all your needs, unless you are very lucky with your recruitment.

A less qualified or experienced person may be suitable if they have someone that they can turn to for mentorship or guidance. This can lead to a combined role of young aspiring full time FD with a more experienced part-time CFO to develop them. That way you get the best of both worlds, with a lower cost full time resource and the experience and knowledge of a higher level CFO on a part-time basis.

Another alternative is to start with a part-time CFO, even for just a few hours a month. This will give you someone who can provide the strategic input and guidance and someone who you can discuss your commercial and financial strategy with. Often they'll quickly identify the key issues in your business and offer solutions that can be implemented by staff on the ground. As your

business grows you can use more time from the part-time CFO and gradually build up to recruit a full time person to develop under their guidance. Many successful companies have used this strategy to succeed, so you'll be in good company.

7. Engage the services of the right person or firm

Now you've decided on what you want, it's time to go into the market and find the right person or firm to provide the services. You need to set yourself a realistic budget based on the value that a good CFO will bring to your company.

A good full time CFO will easily cost you at least £150k to £200k a year plus bonus, equity and social costs (office & NI). They'll also be taking days out for training, holidays and sickness.

You can expect to pay between 17% and 27% of the package for an agency to find you a candidate for the position and potentially more if you engage the services of a headhunter. You'll have to conduct the interviews yourself, although the agency may help and even with the best agencies you should expect to "kiss a lot of frogs".

Once you take on a candidate then you'll obviously be subject to all the normal employment requirements and most CFOs would expect a minimum of 3 month's notice and more likely 6 months or more. You'll only know if you've made the right decision once they've begun work but with a good CFO you should start seeing the changes straight away.

If you choose the part-time option then you have more flexibility. Again you can use agencies to provide a suitable candidate. If you take a part-time CFO through an agency then you'll be paying the agency fees on top of the candidate rates.

There are currently two main avenues for this, one is the standard recruitment agents with their bank of available candidates and other is the growing field of flexible and part-time CFO companies. These allow you to source a CFO who is best suited to your business and who has the relevant experience and qualifications that you'd expect.

The good companies tend to have their own recruitment process to ensure that they get the best CFOs with the most appropriate experience and background. Again, you need to consider the person with the most appropriate experience to fit your particular business. There's no point in getting a high powered ex-PLC director who won't understand the needs and challenges of a fast growing business.

The costs will depend on the firm supplying the service. A standard recruitment agent will start at around £750 a day for a junior FD or FC and rise from there. And you'll pay for every hour they work with no extras. The

part time CFO firms can be more flexible and will sometimes offer additional support (calls and emails) in the rate so make sure you know what you're getting because often the cheaper looking rate can cost you more if you use the same extent of services.

Whatever you decide, you must make sure that you take some action rather than just letting this drift. Think about the value of having more of your time available and the value of having someone in your business who can help you grow and prosper. That's worth a lot, don't you think?

If you want to find out more about how Marshall Keen can help you then call us now on 01256 698031 or send an email to admin@marshallkeen.com