

# How Fractional CFO's Add Value to Growing Enterprises

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TCV Growth Partners

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# Why Companies Fail

- ▶ Management Issues
- ▶ Market Misalignment
- ▶ Loss of Momentum
- ▶ Running Out of Cash
- ▶ Operating unprofitably
  - Not understanding costs
  - Pricing below costs

Which of above can a seasoned Finance Pro prevent?



# The CFO Agenda

- ✓ The CEO's "Wingman"
  - ✓ Making sense of the numbers
  - ✓ Keeping CEO's feet on the ground
- ✓ Oversight of a mature accounting and finance department
  - ✓ Controller reports to the CFO
    - ✓ Bookkeeping
    - ✓ Accounts Payable
    - ✓ Accounts Receivable
  - ✓ Cash Flow monitoring and forecasting
- ✓ Providing useful info to other executives
- ✓ Developing useful metrics
- ✓ Treasury Function



# The CFO Agenda

- Key role – Strategic Partner to the CEO
  - The CEO's “numbers resource”
  - Filters the wheat from the chafe for the CEO
  - Helps keep strategic plans well-grounded in the realities of available resources
  - Determining and analyzing Critical Value Drivers
- Creates and implements non-standard financial reports
  - Metrics & Dashboards
- Supervises the Controller to ensure timely and accurate reporting
- Directs and reviews forecasting
  - One, three and five year plans
- Interface between Accounting/ Finance Department and other senior managers
- Presents at board meetings and interfaces with investors/ lenders / auditors
- Develops and maintains lender relationships



# Polling Question # 1

Would you consider engaging a Fractional CFO if you were the owner of a small business?

- a. Yes
- b. No
- c. Maybe



# Essential Finance Functions

- ▶ Bookkeeping
- ▶ Invoicing
- ▶ Collections (A/R)
- ▶ Payments (A/P)
- ▶ Cash Flow Management
- ▶ Budgeting
- ▶ Forecasting
- ▶ Reporting
  - Internal
  - External
- ▶ Strategic and Tactical Planning

Which ones come first?



# Finance Department Progression

- ▶ Early Stage – Start up to Revenue Traction
  - Owner wears all the hats but doesn't typically have experience in any aspects of company finance
  - Hires an office manager who may do some financial related activities
  - Uses QuickBooks to enter invoices and manage payables (may be owner or office manager)
  - Contracts with an accounting firm for monthly QuickBooks “close”, production of monthly financial statements and year end tax work



# Finance Department Progression

- ▶ Revenue Growth Stage & Positive Cash Flow
  - Owner still wears all the hats
  - A Bookkeeper is hired to take accounting load off of Office Manager
    - Manages QuickBooks
      - Invoicing, Enters Vendor invoices, prepares checks for owner to sign
      - Does monthly close
  - Accounting firm responsibility shifts to review of monthly close and production of financial statements, Year End tax work





# Finance Department Progression

- ▶ Stable Revenues Stage – Smaller Business (\$5M – \$20M revenues)
  - Owner starts to off load Sr. management responsibilities as profitability allows
  - Accounting department fills out
    - A controller is hired
      - Monthly financial statements
      - Interfaces with Accounting firm
      - A/P and A/R persons are hired
      - Bookkeeping responsibility may shift to controller
  - Accounting Firm continues to do year end tax work but also produces “Compiled” or “Reviewed” financials statements as needed

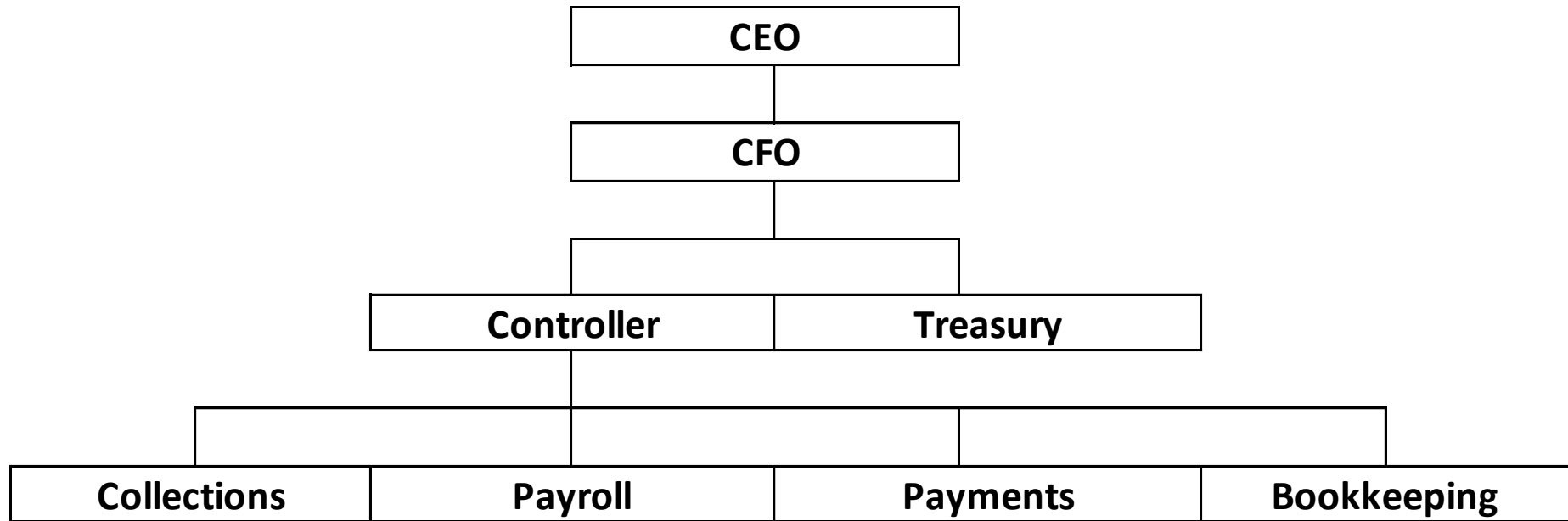


# Finance Dept. Progression

- ▶ Small Business with Rapidly Growing revenues, \$25M+ revenues
  - Owner builds out senior management team
    - CFO is hired
      - Oversees all accounting and financial related activities
      - Fulfills the CFO agenda



# Mature Company Finance Dept. Org Chart



# Polling Question # 2

What do you consider the primary qualifications for a Fractional CFO?

- a. CPA
- b. Master's Degree in Accounting
- c. Specific industry experience
- d. Strong cultural fit with your executive team



# Progression Pitfalls – Early Stage

- ▶ Cash Flow managed by owner's look at available cash in check book
- ▶ No Cash Flow forecasting
- ▶ No budgeting with variance analysis
- ▶ No Financial Statement Forecasting
- ▶ No growth strategy that incorporates realistic financial info



# Progression Pitfalls – Stage 2 Growth

- ▶ How to finance growth?
  - Bankable?
  - Investable?
  - Able to use internally generated funds?
- ▶ Who answers these questions?
- ▶ Who prepares required documents?
- ▶ Who interfaces with the bank or investors?
- ▶ Is a “Team” a requisite for financing?



# Progression Pitfalls – Stage 3

- ▶ Stable Revenues with a Controller in place
  - Bankable?
    - Does the controller have enough time?
    - Does he have experience generating required reports?
    - Does he have experience with the various loan types?
  - Investable?
    - Same as above
  - Other potential problems
    - Enough time to develop and monitor budgets, forecasts, metrics, cash flow forecasting?
    - Experience with above
    - Is focus on accounting preventing a big picture mentality?



# Polling Question # 3

If you were to engage a Fractional CFO how many hours a week would you expect them to be on the clock?

- a. 1 to 4
- b. 4 to 8
- c. 8 to 24
- d. More than 24





# Critical Items often not covered pre-CFO

- ▶ Budgeting with Variance Analysis
  - Are sales stable to growing?
  - Are margins stable to growing?
  - Are “fixed” expenses under control?
- ▶ Understanding costs vs. pricing
- ▶ Cash Flow Management
- ▶ Cash Flow Forecasting



# Other Items often not covered pre- CFO

## ► Metrics or KPI's

- Essential for measuring success
  - Provides accountability
  - Provides means of objectively providing incentives & rewards
- Cash Metrics
- Sales Metrics
- Manufacturing Metrics
- Operating Metrics
- Who determines what metrics to use?
- Who leads the effort to develop metrics?



# Sales Metrics Examples

- ▶ Revenue vs. Forecast
- ▶ Avg revenue per salesperson comp to revenue by salesperson
- ▶ Lead conversion rate
- ▶ Sales cycle – avg days to close a sale
- ▶ Sales close rate – % of leads that lead to close



# Example of Cash Metrics

- Current Ratio =  $\text{Current Assets} / \text{Current Liabilities}$
- Quick Ratio =  $\frac{\text{Current Assets} - \text{Inventory}}{\text{Current Liabilities}}$
- Burn Rate = Average change in cash per month
- Working Capital =  $\text{Current Assets} - \text{Current Liab.}$
- Accounts Receivable Days =  $(\text{Accounts Receivable} / \text{Revenue}) \times 365$
- Operating Cash Flow =  $\text{Revenue} - \text{Operating Expenses}$



# Other Metrics

- ▶ Manufacturing metrics
  - Inventory Turns
  - Capacity Utilization
  - Order Lead Time
  - Defect Rate
  - Labor Cost per Unit of Product
- ▶ Company development metrics
  - Planned vs Forecast Burn
  - Planned vs Forecast \$ spend per expense category
  - Project ROI
  - Customer Satisfaction



# Polling Question # 4

What do you believe a reasonable hourly rate for a Fractional CFO would be?

- a. \$75 an hour
- b. \$150 to \$200 an hour
- c. \$300 to \$400 an hour
- d. Over \$400 an hour



# Cash Flow Management

- ▶ Cash is the lifeblood of any organization
- ▶ Your financial forecast shows what you need over long periods but..
- ▶ You need to understand your “Burn” rate and “runway”.
- ▶ You need to monitor cash on hand each week and expected expenditures to ensure you are not over spending



# Monitoring and Forecasting Cash Flow

- ▶ Cash Flow Forecasting
  - Understand (know amounts, timing)
    - A/R – Incoming Cash from Sales
    - A/P – Payments for Rent, Utilities, etc.
      - Forecast Payments to vendors
    - Payroll
  - Prioritization of Payments
  - Forecasting cash availability
  - Communication
- ▶ Why is communication important?





# Cash Flow Management – Communication

- ▶ Between company and outside entities
  - ▶ Who you invoice – their typical payment schedule
  - ▶ who you pay – how long can you delay?
- ▶ Within your company – A team effort
  - ▶ Key Managers/Departments
    - ▶ A/P, A/R, Payroll, Inventor Purchasing, Asset Purchases

**Someone must lead the effort**



# Problem – Why Experienced CFO's aren't hired earlier

- ▶ Cost is prohibitive – Typically \$150K to \$300K depending on experience
- ▶ Controllers are burdened with some CFO tasks and end up working 80 hour weeks
- ▶ Owner does not understand the benefits of Financial Leadership at early stages



# Solution – Fractional CFO

- ▶ Match cost to what is affordable
  - Cost depends on number of hours per month needed
  - Rates can be fixed at agreed upon rates or
  - Rates can be hourly – Typically between \$180/hr. to \$220/hr.
  - # of hours needed depends on size/stage of company
  - Smaller companies may need 10 hours per month or \$2,000/month = \$24K annually
  - Larger companies may need 20 to 30 hours per month = \$48K to \$72K



# Fractional CFO –

## ▶ Roles & Responsibilities Increase as company grows

- Initially assist with budgeting and ensuring profitable operations
- Adds new functions as needed and company can afford
  - Cash Flow Forecasting
  - Ensuring billing rates or pricing covers costs
  - Assistance with building the finance department
  - Building a strategic growth plan
  - Establishing metrics
  - Financing growth
- Ultimate aim is help the company grow to the point where it can hire a full time CFO!



# Polling Question # 5

What's the BEST way to find a Fractional CFO?

- a. Ask your business contacts
- b. On LinkedIn
- c. Call TCV Growth Partners



# TCV Growth Partners

## ❑ Fractional & Interim Executives

- ✓ Marketing
- ✓ Sales
- ✓ Operations
- ✓ Finance

## ❑ Financial Leadership Partners:

- Dave Costello  
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