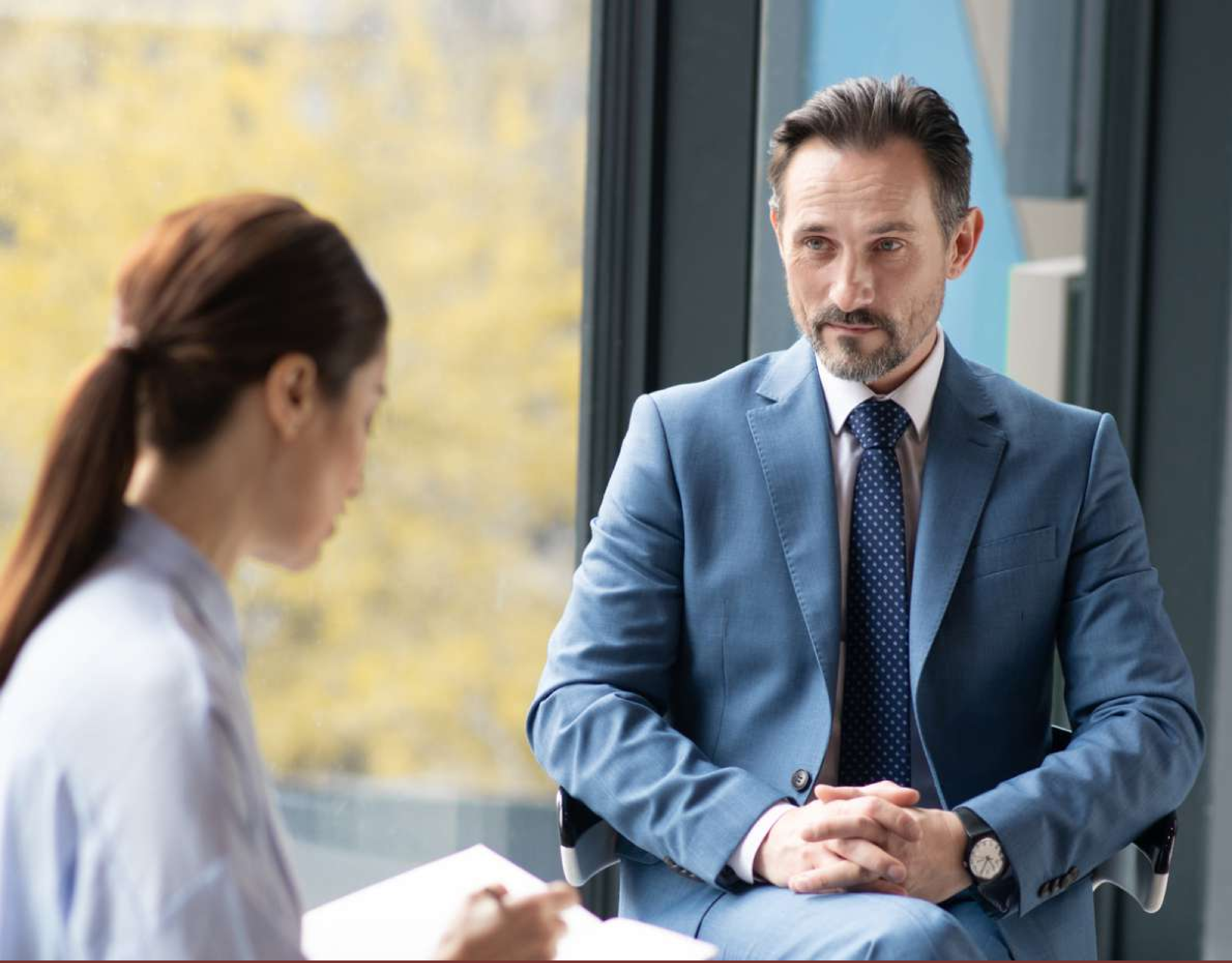


HIRING THE RIGHT FINANCIAL PEOPLE IN A SMALL-BUSINESS

Matching the right resources & tasks to maximize ROI

MICHIGAN CFO ASSOCIATES

Hiring The Right Financial People In A Small Business

A few years ago, I was at a routine dental appointment and my dentist told me it was time to have my wisdom teeth removed. There was no emergency or immediate need, but he said that sooner or later there would be an emergency, so why not take your time, fit it into your schedule and get it done at your convenience before it becomes an emergency. So I reluctantly scheduled the appointment with an oral surgeon.

Over the next few months (before my surgery) I spoke to many, many people who already had their wisdom teeth removed. Many of them were happy to share their horror stories. One guy in particular told me that his dentist used some type of hammer, and literally had his foot up on the dental chair to give added leverage in removing a stubborn tooth. He missed 3 or 4 days of work after this experience. The look on his face as he recounted this story put the fear of God into me.

But one thing in his story stuck out: he didn't go to an oral surgeon, he went to his dentist. I asked him why, and he said "It was cheaper"

Cheaper???

Wow. It was hard for me to imagine basing such a decision on "cheaper". After all, we're not talking about buying a ream of copy paper, a tube of toothpaste or a gallon of gas. This is health care.

And even if you subscribe to the cheaper line of thinking, missing 1 or 2 or 3 extra days of work surely eliminated any out of pocket savings on the initial transaction.

I took some relief in the fact that I had met with a highly recommended specialist – an oral surgeon – who was an expert in his field.

I had all 4 teeth removed and the procedure could not have gone any better. I didn't even need the Vicodin prescription I received!

I remember looking back after I had fully recovered and found this entire experience perplexing. Why would anyone want to have their dentist – clearly not an expert at surgery – "play" surgeon for a day, when there is a REAL SURGEON available?

It reminded me of 2 old expressions we all hear growing up:

1. Use the right tool for the job
2. Learn from your (and others') mistakes

Now, I will confess that I often violate these two rules. I've ruined many Phillips head screws trying to use a screwdriver that was either too big or too small. I've bent many nails using the wrong type of nail for the job.

But these are little decisions. The cost of messing them up is not all that great. It is far more important to get the BIG decisions right than the little ones.

Likewise, in your business, it is more efficient, a better value, and a more sound plan to use the right resources for the right tasks. And to pay attention to what others have done wrong, and do the opposite.

In businesses with less than $25M in revenue where a Controller (or whatever title you use) is in place, we usually find one of two scenarios:

1. The Controller is a person who's grown with the business, knows the business very well, does the books, but really isn't a Controller in practice; They're more of a bookkeeper/office manager/accounting manager. Their focus is on daily transactions.
2. The Controller is a person who may be good at debits & credits, may be capable of putting together reasonable looking financial statements, may be putting together a rudimentary budget, but lacks other company, other industry experience that is critical in helping the owners from a strategic point of view. This would include financial leadership, best practices, systems & processes, short & long range planning, high-level financial analysis, etc.

Asking either of the Controllers described above to do the job of a 15 year CFO is like asking your dentist to do oral surgery. Frankly, it may even be closer to asking the hygienist to do the surgery. It's not efficient, it's not cost effective and there's a very good chance it's going to involve a lot of pain.

Or, it may not get done at all, and then decay sets in and sooner or later there's an emergency.

You might think this is a cute analogy, but the fact is that it happens like this all the time. Many businesses have either woefully underperformed or worse yet, shut down, as a result of using a cheaper resource than the job demands.

Invest in the right resources for the job. . .

If you broke down the actual work that a Controller does, you'd see that you're overpaying for certain tasks, paying an appropriate amount for some tasks, and underpaying for others. In most cases, underpaying means either the task isn't getting done, or it isn't getting done right.

When we're working with a new client, we try to assess what work needs to get done, and then select the most appropriate resource for that task. There's no sense using an expensive Controller to do repetitive, transactional tasks (like A/P); conversely, there's no sense asking the A/P person to generate a 12 week Cash projection.

So what we're really talking about is matching the work load with the appropriate resource. The example above was an obvious one, to make the point. But when you're analyzing what a Controller does, it may not be so obvious, especially if you as the owner have no accounting background. Again, we are trying to minimize the tasks your Controller is doing that you are EITHER overpaying for (inefficient) or underpaying for (not capable of).

In the hiring process, this is where compromise usually enters the picture, as most businesses cannot justify the cost of a Controller or CFO that is capable of getting the "highest level" items done correctly, so they settle for a mid-level Controller that can get 60% or 80% of what they need done, but they're missing out on the top end tasks – that in the long run are the most important. (Financial analysis, budgeting, planning, strategic thinking, etc.) And it makes sense, because you wouldn't want to hire a 6-figure CFO full time, when you only need the expertise of a 6-figure CFO 20% of the time. Yet it's the top end tasks that are most critical.

There hasn't been an obvious solution to this problem in the marketplace – until now.

Suppose you have the following financial staff:

Position	Salary	Benefits @ 25%	Total Cost
A/P or A/R	$50,000	$12,500	$62,500
Controller	$90,000	$22,500	$112,500
Total Cost	**$140,000**	**$35,000**	**$175,000**

Now suppose you allocated the same total dollars in a different manner to use the right resource for the right tasks – most importantly, getting the highest level tasks completed by high level people (i.e., an outsourced CFO).

Position	Salary	Benefits @ 25%	Total Cost
A/P or A/R	$50,000	$12,500	$62,500
Accounting Manager	$70,000	$17,500	$87,500
Fractional CFO*	$38,000	$0	$38,000
Total Cost	**$158,000**	**$30,000**	**$188,000**

*For illustrative purposes only; pricing may vary depending on client needs

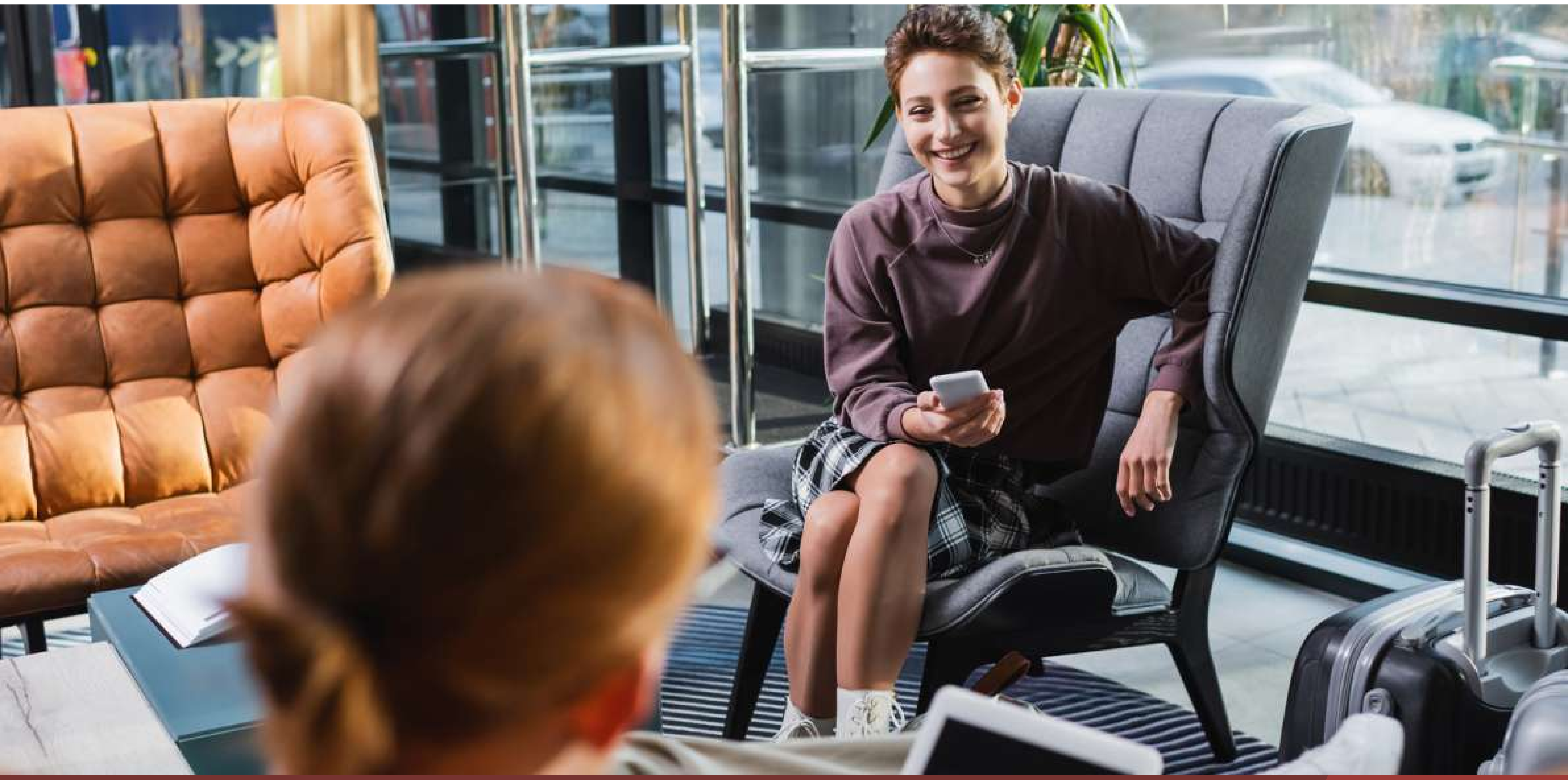
If the cost is the same. . . or even if the cost is similar but more expensive. . . wouldn't it make sense to get the expertise of a more experienced professional assisting you with managing the financial side of your business? Is this something you want to leave to chance – to leave to your "dentist" when there's an "oral surgeon" available?

Now your specific situation may be different than the above example. Maybe you have a larger or smaller financial staff, or the staff salaries different. But that's really not the point. There are two 'takeaways' from this illustration:

1. Make SURE you're getting the highest 20% of financial work done by a competent person as it is the most important work;
2. Match the resource with the work in order to do (1) as efficiently and cost effective as possible.

It would be better to do (1) and not (2) than vice versa. First, get the important work done; then make it efficient.

Another truly key issue for the business owner is objectivity. The Controller serves a unique role as an advisor on confidential financial issues. Yet the Controller has many "behind the scenes" motivations that can compromise the messages delivered to the business owner. Few individuals like delivering bad news. However, if the bad news is buried, or glossed over, or spun in a more palatable way, the bad news may take root and grow into a serious problem. We've seen this occur more than once and it can result in a business shutting down because fixable problems are not addressed.



An outsourced CFO has no baggage clouding his or her objectivity. No thought is given to "how with this piece of bad news affect my bonus?" Or "If I tell her the news she doesn't want to hear, I may end up out of a job". An outsourced CFO is going to give you straight talk about difficult issues. . . as well as recommended solutions.

We've seen company, after company, after company keep a dead initiative on life support for too long, throwing good money after bad. It might be an underperforming product line, division, department, employee. . . even the business as a whole. There is a point when it's time to 'cut bait'. More often than not, the owner cannot be objective about this because of the desire to see it succeed and the amount of effort and expense that's gone into it. This is where having someone who understands the "top 20%" of financial work can pay off ten-fold.

The importance of getting "the top 20%" done by a capable person cannot be overstated. It is the difference between flourishing and barely hanging on. It is confidence vs. worry. Deliberate vs. uncertainty.

The questions for you are: what "top 20%" tasks are there in your business that are not getting done, or are not getting done right? Are you asking a dentist to do the work of an oral surgeon? These questions requires an honest, evaluation from you if you're objective is truly maximizing the health, longevity and profitability of your business.