

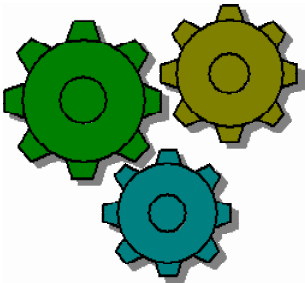
The CFO - Does a Small Company Really Need One?

Everyone accepts that a billion dollar corporation needs an experienced, talented Chief Financial Officer on their management staff. And few would argue that the corner convenience store or the local gift shop have little need for such sophisticated talent. But what about the vast majority of businesses that fall in between? As an example, what does a privately-owned business in the critical \$5 to \$10 million annual sales range need in the way of financial management? Can they succeed without hiring a CFO, *and* without risking just "winging it" and hoping for the best? Well, maybe...

If your company is in that critical size range, and if you want it to grow, you may be approaching what can be a significant and often painful transition from an informally run company to a professionally run organization. Lets take a look at the kinds of financial management challenges you, as the owner/CEO of such a company, might face as part of such a transition.



1. **Cash Forecasting and Budgeting.** You will want to have a method of estimating your cash flow beyond the next few days or weeks, so you can be prepared for periods of cash shortage (or excess, to fund expansion). This is especially critical in a cyclical business, a troubled company or a growing company. Such forecasts should be understood, analyzed and updated regularly to avoid sudden, nasty surprises. And what about budgets as a fundamental tool for setting and accomplishing profit goals? Beyond a few million dollars of sales a year, few CEOs can keep all this in their heads.



2. **Employment Regulations and Insurance.** If your company has more than a handful of employees, you want to be aware of ADA, The Family Rights Act, SB198, and a host of OSHA regulations. Your Staff, an employee leasing company, estimates 50 pages of new regulations are issued **every day**. And then there are the benefits: Someone must to be able to evaluate cost vs benefit of health insurance, cafeteria plans and employee leasing. You must be vigilant around workers' comp claims and demanding of claims management support from your broker, and some are much better than others in this area.

3. **Manufacturing Costs.** If your company is a manufacturer, you appreciate the value of being able to calculate your production and overhead costs at various levels of production and operating efficiency. You should know when unit costs are out of line because of real events rather than accounting allocations, and what can be done to bring costs back in line. Someone must judge how much cost accounting accuracy is enough, because it costs money to get it.

4. **Accounting and Financial Reports.** Your company must have a viable accounting and recordkeeping system that, in combination with other internal operating procedures, provides reasonably accurate information to make decisions and satisfy tax and other reporting requirements. It should not be so elaborate that it becomes an end unto itself, but rather a tool to make better decisions and ultimately achieve stronger profits. Do you have such a system? How much does it cost, and how much *should* it cost?

5. **Business Insurance.** Do you want to know what is possible, and what is a reasonable cost to pay, for general liability, product liability, and other important coverages?. Do you want to be able to intelligently decide when it makes more sense to self-insure some part of your risk? Many companies rely on their brokers for these answers, but not feel comfortable with the potential conflict of interest, and few CEOs speak the language of insurance.



6. **Banking.** If your company is a borrower, someone must communicate to your lenders in financial language and provide financial statements and other information. You should understand enough about what's in your own numbers to avoid being embarrassed, surprised or unprepared when your lender asks questions based on the information you gave them. Someone should understand the strategies to employ when a credit line is up for renewal, particularly if there is any chance your line will not be renewed. Some understanding of the banking industry is very helpful here.

7. **Cost Control.** Someone needs to be always looking to the possibilities for cost control, for ways that costs can be permanently reduced while satisfying your critical needs. They need to be watchful for appropriate increases in your selling prices as well as unexpected increases in your suppliers' prices, and what strategies can be employed in each case to optimize the resulting impact on the company.

The owner/CEO of each company ultimately has the responsibility for these areas, often handling them personally, with the help of a controller or staff accountant, the company's lawyer, or one or more of the many other advisors he or she can draw upon, often without even having to write a check. If your advisors have the depth of experience, knowledge of the company and impartiality that you want, you may need nothing more for now. If they don't, how many owner/CEOs can boast the time and expertise to run a company *and* supervise or perform in all these areas as well?

I suggest to you the question is not whether such companies need a Chief Financial Officer, but rather how do they pay for the CFO they really need. At what point does the cost of unskilled management exceed the cost of professional management? Isn't that the *real* question?