The Issue

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How do you best use the Consulting Chief Financial Officer?

Re-characterizing crisis & growth challenges into Opportunity

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All businesses need financial strategy and financial execution to succeed, from peering into the future to set and guide strategy to preparing required financial forms, statements, taxes and audits. But how many people and at what level of expertise varies dramatically across business size, maturity and particularly when unique opportunities and/or challenges materialize.

Startups and small businesses might succeed with an excellent bookkeeper and a part-time CFO. Mid-sized businesses will want at least a controller overseeing the accounting team and can sometimes supplement missing financial skill sets and knowledge with a CFO on a part-time basis. Even large businesses with a permanent CFO and financial organization will occasionally need the expertise of a subject expert such as in international expansion, transaction services including mergers and acquisitions, internal audits of all kinds and the temporary staffing of teams of controllers, bookkeepers, accountants, financial and SEC reporting personnel, industry or situational specific experts, or even a CFO.

These are all cases for hiring a Consulting CFO. An experienced expert within a partnership of other consulting CFOs, all with defined areas of expertise, who delivers intuition and judgement gained from years of successful and relevant experience to quickly assess and act. In addition, a Consulting CFO is uniquely able to build teams: part- or full-time, interim or direct hire. A Consulting CFO brings the wisdom and the capacity to re-characterize a crisis into an opportunity. Properly faced, crisis and growth challenges are the very opportunities that cause companies to grow and prosper when faced with clear vision and detailed execution.

Case Studies

Some time ago, I was called in to advise a chocolate company. It had a small and attractive show room, many local accounts, and several large national accounts, including Safeway Stores, Costco, Nordstrom, and Trader Joe's. Research showed that the previous owners had worked hard but within reason to enjoy a good living. Even though the company was now operating at a volume over double that of the previous owners and management had improved, the present owner was overworked, was continually unable to meet his financial commitments and control his earnings. The facts belied our instincts: cautious organic growth should result in incremental real dollar profit growth. This raised a much more general question: "Why are there so many small and so few mid-sized chocolate companies?

I completed a business financial assessment and resulting plan with recommended prioritization areas and payback hurdle rates. Some of the recommendations were that there be no investment except plant expansion without a three-month payback, that the owner delegate tasks and responsibility to his team, that there be a refocus in customer relations from "supplier-buyer" to long term "partnership" and that uncooperative customers and vendors as much as unproductive, incompetent or subversive employees be "fired". Recommendations were also made for key positions in finance and for improvements to financial systems.

Over a period of two years, sales consistently rose to approach the $5,000,000 mark, showing that the company had made it through the three most difficult growth stages: Start-up, Taking-it-to-Breakeven and Crossing-the-Valley-of-Death by successively exceeding $1,000,000 in sales, adding major wholesale capacity and becoming self-financing without personal guarantees and other constraints to growth.

On another Consulting CFO assignment, a young entrepreneur, after a year of hard and intelligent work, living off savings, had succeeded in developing packaging, converting domestic recipes, finding a piece work manufacturing opportunity, learning how to personally operate the manufacturing and packaging equipment, penetrating and developing loyal repeat sales with some fifty customers, and moving from zero to fifty thousand dollars per year run rate. Her need? "Now that I have sales, how do I go about obtaining cash flow financing so I can earn at least half of my previous management salary of $200,000 per year?"

This $100,000 salary plus relatively minor miscellaneous overhead brought necessary contribution to overhead and profit to over $130,000 per year. From experience and knowledge of current market conditions, I knew 20% contribution would bring necessary revenue to $650,000, 13 times the existing sales rate. Equally important, existing weekly sales rate per customer would require 650 customers, requiring a much larger distribution system and vastly expanded geography.

Not knowing how to make that simple calculation has caused untold heartache for numerous enthusiastic and energetic business people leaving well-paying jobs for an opportunity to develop a "great product". As a refresher, and for those not used to manufacturing metrics, the calculations are based on standard Contribution to Profit and Overhead expressed as a percent of revenue divided into the desired overhead.

First, to determine the Contribution percent, using standard manufacturing rules of thumb:

Gross Revenue	100%
Less Cost of Goods Sold	50%
Gross Margin	50%
Less Selling & Distribution Expense	30%
Contribution to Profit & Overhead	20%
Less Overhead	5%
Net Operating Profit	15%

Then, dividing the desired $130,000 of overhead by the 20% contribution indicates that $650,000 of revenue is necessary to support that level of overhead.

It is difficult to remember the financial fundamentals in the San Francisco Bay Area. The radical changes wrought by the high technology industry have caused those of us in the smokestack and low-tech world to sometimes lose perspective. Sufficient equity to allow a burn rate lasting three or more years is not unusual in hi-tech; in standard manufacturing, however, a company is generally expected to be profitable before it can bring in equity. When surrounded by such affluence, it is not surprising that entrepreneurs in other industries expect to be supported during the high-risk market expansion phase. Unfortunately, they lose sight of the financial fundamentals.

If my client had known how to make that calculation, important questions would be asked and hopefully successfully answered: how could the product line be re-structured to increase the sales penetration of each customer? Is that segment of the customer base appropriate for the goals of the business? Could the owner's standard of living be reduced even further? Is this a viable business at all? With that calculation in hand, the need to make choices becomes clear. All the long hours in the world will not make up for the absence of that process.

Additional metrics follow from the Break-Even Analysis. Distribution Analysis brings us to the sales per week by customer to allow us to calculate how many customers we need to meet breakeven. Service Events per Customer per month allow us to calculate the number of delivery stops to develop per customer sales. Cost per Delivery Stop allows us to calculate the Selling & Distribution Expense percentage, and so on, as we fine tune the costs of the operation. The same is true for the labor, ingredients, packaging and overhead segments of Costs of Goods Sold; they all reduce the contribution and, therefore, raise the revenue necessary to reach breakeven.

The most important result of using the appropriate metrics is to make the owner aware of the problems that need to be faced and the confidence that comes from seeing alternatives before it is too late. Hitting breakeven, when it is properly defined, can be a great deal of work, but it is attainable if not exaggerated.

A Consulting CFO starts with a needs assessment to assist in determining the type and extent of financial services needed customized to your specific business and not a check-the-box template; and moves through the different stages of your business and needs.

Needs Assessment

- Your CEO is interviewed to determine his/her vision, goals, needs and concerns of the company, and to assess the issues that might inhibit the company from fulfilling its vision and goals.
- In consultation with the CEO, the Consulting CFO interviews key employees at every level to assure that the data flow is broad enough to reflect as many points of view as possible.
- The Consulting CFO reviews accounting, financial, legal and other documents to identify structural limitations that are or will constitute the hurdles to reach stated vision and goals
- A report is prepared indicating those places of concern within the organization, mitigations for those concerns and recommendations for their solution.

Initial Services

- Helping the CEO and the HR department identify the critical financial personnel needs.
- Identifying impending challenges and potential solutions for future implementation.
- Determining the systems and services weaknesses that can be corrected during this time of flexibility.
- Determining the company specific training necessary to bring both the interim and permanent hires to full capacity as soon as possible.
- Preparing a list of recommendations to provide the resources and the cost of establishing the next steps in the company's growth.
- Fulfilling those urgent day-to-day duties necessary to stabilize the company.
- Providing the focal point for those day-to-day operations to keep the remaining team functioning and productive or handling the crisis event (e.g., merger, international expansion, etc.) while the current team handles day-to-day operation.
- Projected Cash Flow: multi-year projection to assure that all resources will be in place to assure continuing profitability & liquidity.

Transitional Services

- Installation of Accounting Systems
- Preparation of Accounting Manual
- Preparation of Capital Equipment Budget
- Interviewing and training of second & third tier personnel
- Establishment of Export Relationships
- Establishment of Manufacturing-to-Order and Logistics Systems
- Installation of Purchasing Systems and Controls
- Installation of Real Time Inventory Control & Replenishment Systems
- Installation of Real Time Work in Process Systems
- Sizing. Costing, Pricing
- Preparation of full Sales, Marketing and Business Plans

On-going, Oversight and Counseling Services

- Board - Accounting Department Liaison
- Audit Direction
- Budget, Financial Plan and Forecast Maintenance

- Banking and Government Relations and Support
- On-going Financial Statement Review and Recommendations
- Sales, Marketing and Business Plans Updates
- Preparation of materials for and introductions to the Venture Capital communities
- Financial team recruiting and qualification, establish career paths

Conclusion

At CFOs2GO we offer Consulting CFO services on a part-time, long term, basis, an interim basis and/or the recommendation and placement of permanent personnel, from the CFO down to the bookkeeper. Our Consulting CFO can qualify candidates for open positions and assess their career growth potential and respond to any crisis or opportunity you are facing. All our candidates are CFO referenced or CFO referred.

If you need assistance in assessing your business or are facing a uniquely challenging situation requiring subject area expertise, please contact Jack Doty at CFOs2Go (JED@CFOs2GO.com) or by calling him at (925) 299-4450.

Jack leads the Food and Beverage Practice Group at CFOs2GO. He has held CFO and executive level positions in food manufacturing and distribution including an entrepreneurial role expanding Watlington Foods to over 150 Bay Area stores and international expansion, saving Granny Goose Foods from a WARN notice and restructuring a fifty-year-old chocolate company to re-establish sales. In packaged consumer goods, he placed a local coffee company into Safeway, provided grocery placement for local cake and cookie companies, and provided strategic, sales and financial planning for several well-known brands, including TCHO Chocolates.

Jack is an active member of the Specialty Food Association and the Fine Chocolate Industry Association as well as professional financial organizations such as the Institute of Management Accountants.

Practice Areas: Food & Beverage (Lead); Non-Profit (co-Lead), Manufacturing