

The Rent-To-Own CFO Program

Think you can't afford to bring on a CFO? No problem: Rent one instead.

By Susan Hansen
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Arni Halling always considered himself pretty handy with numbers. So in 1998, when his stepdaughter Christine Dimmick asked him to oversee finances at her New York City home products start-up, Good Home Co., Halling, a marketing consultant and former director of consumer promotions for Disney, figured he was up to the job. He certainly had what it took to create a basic accounting and bookkeeping system and get Good Home set up on QuickBooks. And for a few years, that was enough. Selling its line of home cleaning and laundry products through retailers such as Nordstrom and Restoration Hardware, Good Home's sales grew steadily, reaching \$2.1 million in 2001.

Then, in September 2002, Dimmick appeared on QVC, the cable shopping network. In one night, she sold some \$300,000 worth of merchandise, more than the company had been selling in a typical month. It was a coup for Good Home but a crisis for Halling, who somehow had to come up with \$200,000 to fill all those orders--and those costs wouldn't be recouped for months. "It was a killer from a cash-flow standpoint," Halling says. "Where the hell was the money going to come from?" He tried juggling things himself, renegotiating payment terms with creditors. But within a couple of months, Halling threw up his hands: "I said, 'I can't do this anymore--I'm not smart enough.'"

Good Home's problem was plain enough: It needed a savvy financial pro on staff. But for small companies, bringing on a full-time chief financial officer can be an awfully big step to take. The salary alone--generally between \$100,000 and \$150,000 a year--often is more than what the CEO takes home. Then there's the matter of control. Obviously, hiring a CFO means giving up some measure of authority over the finances and spending decisions of your business. What's more, the return on investment on a CFO is hard to measure. "Most entrepreneurs feel like there's no revenue associated with a CFO," says University of Texas business professor Jim Nolen. "They're thinking, 'Why spend money on a CFO, when I'm not sure how I'm going to get that back?'" he says. It's no wonder that so many people stick with QuickBooks.

But there is an alternative: Rent a temp. After all the corporate downsizing of the past few years, **the rent-a-CFO business is booming,** with at least two dozen companies specializing in temp CFOs scattered across the U.S. Many temps have decades of financial experience and can help you arrange financing or credit or a budget. Just as important, he or she can serve as a clear-headed strategic planner--something that will help ensure that a CEO's growth plans actually make financial sense. "He's the sanity check to the CEO's strategies," says David Gilmore, a managing director of Atlanta-based Tatum Partners, one of the biggest providers of temp CFOs to small and midsize companies nationwide.

Such services don't come cheap. While rates vary from city to city, a part-time temp can cost at least \$1,000 a day--though you might get a break by hiring someone for, say, a one- or two-month (or longer) stretch. But the investment can be well worth it, says Good Home's Halling. After trying to deal with the company's cash-flow problems himself, he contacted the local chapter of the Young Entrepreneurs' Organization and asked for a reference for a part-time CFO. Based on that recommendation, Halling hired Jerry Charlup, founder of CFO Associates, based in Stamford, Conn., and a finance pro who had more than 20 years of experience.

Charlup's prescription: a cash-flow forecasting system, something Halling had heard of but lacked the technical expertise to design himself. Charlup put it together for \$6,000. "He designed it in Excel, so we can plug in costs, like payroll and overhead," says Halling. The new program, he says, has given Good Home, which now has revenue of more than \$4 million, a far clearer fix on how much operating capital it needs at any given time.

Since then, Charlup has continued to temp for Good Home, advising the company on negotiating contracts with manufacturers and helping screen candidates for a part-time accountant position. He also performed a detailed analysis of the relative returns of the company's personal-care products compared with its home-cleaning line--the results of which led Good Home to phase out its smaller personal-care line. **"Jerry helped us realize that the money and growth were in home cleaning and laundry,"** says Halling. The cost of all of Charlup's services so far? Less than \$20,000, Halling says.

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Indeed, for many companies, a temporary CFO winds up serving as a kind of freelance financial adviser. When he founded Trough Technologies in 2001, Hank Weghorst hired Ellen Wood, co-founder of Virtual CFO, an Austin-based rent-a-CFO outfit. Wood set up the Austin software company's accounting system, opened up checking accounts, and helped Weghorst negotiate a

line of credit with a local bank. The price tag: roughly \$1,500 a day. It may sound like a lot, but Weghorst says it was considerably cheaper than hiring a permanent CFO, and a lot more efficient than trying to do the heavy financial lifting himself. More recently, Wood, the former CFO of a large Texas telecom company, helped Trous screen and interview candidates for a full-time director of finance position. The job's been filled, but Wood remains part of the Trous team, serving as a strategic adviser. Before his company sought a new round of financing, for example, Weghorst consulted with Wood to get a better handle on the market. "The relationship continues," he says.

Of course, not every company needs a CFO--even on a temporary basis. If your company's growth rate is gradual and you don't need to raise cash, then you can probably get by, and even thrive, with an accountant and QuickBooks, says Robert Howell, a professor of management at Dartmouth College. "It's a function of the complexity of a business as much as anything," he says.

Tim Hall, founder of Prime Entertainment Inc., an Atlanta vendor of interactive educational devices for children, understands that as well as anyone. A marketing expert with little financial experience, Hall was looking to keep costs as low as possible. So when he launched his company in early 2002, he hired Cheryl King, a rent-a-CFO from Tatum Partners in Atlanta, on a part-time basis. Seven months later, he changed his mind. "We couldn't afford not to have her full-time," says Hall, despite the fact that King commanded a six-figure salary.

After all, the 55-person company was growing at a blistering rate, with sales of roughly \$1 million a month. Plus, it was eyeing a pair of acquisitions. King, a former financial executive at credit-card payment processor First Data Corp., helped put together \$2.2 million in financing for those deals. After they closed in early 2003, she integrated the companies' payroll and customer billing and invoice systems with those of the parent company. Now, Prime Entertainment, which already has raised about \$6.5 million in capital from banks and private investors, is gearing up another round of fundraising. And Hall is convinced that having a full-time CFO will make it an easier sell. "It's definitely boosted our credibility and made for a stronger team," he says. "The financial expertise you get cannot be so easily duplicated."