What to Expect from a Part-Time CFO

Image credit: Shutterstock

Pamela Walsey, Guest Writer
CEO at Cerius Executives
March 31, 2016

Companies with under $10 million in annual revenue can seldom justify a full-time chief financial officer (CFO). This doesn't mean they don't have growth goals to take them to the next level, or problems and issues requiring the attention of a senior financial executive. It's just that they don't have a need for top-level talent every day. That is precisely why more companies are engaging with part-time CFOs.

Hiring an interim or part-time CFO immediately can help focus on key financial elements rather than get lost in the day-to-day operational details of the business. Part-time CFOs are cost effective and offer an outside perspective that delivers invaluable input and insight to strategic decisions. If you're considering outsourcing a part-time CFO, here are four things you can expect.

1. Get to know you and your business.

Interim CFOs will want to know what's bothering the business owner most. To help a company get on track, a part-time CFO needs to be aware of the key issues the company is facing financially. He or she will want you to do most of the talking and will start by asking some basic questions about your financial situation. Your financial statements will tell the interim CFO the 'what', but not the 'why.' That is important for them to understand as well.

They will also want to get acclimated with the office environment and establish a trust factor as a foundation for the relationship with the owner.

2. Understand your break even point

The amount of units -- products or hours of service -- you have to sell to cover your expenses is your break even point. Although break even points are central to a business plan, not many company owners pay attention to it. They don't understand the formula to calculate at what point they have enough sales to cover their expenses, after which their sales becomes profit. This is best if easily tracked on a shorter term basis, ie. weekly. If a company is not operating at break even, every day that goes by is losing money. This will be one of the first places an interim CFO will want to target.

When looking at a profit and loss (P&L) statement, you can quickly see that there may be some line items that are misclassified. They're going to need to be above what they call 'the line' or 'below the line'; that's the gross profit line. Once that's understood and addressed, then the CFO will discuss scenarios for funding growth initiatives. For example, let's assume you wanted to spend $10,000 on a marketing initiative, the same formula is going to answer the question 'how much in sales do I have to generate to cover that cost?' Understanding expenses in terms of sales, helps a company comprehend their decisions and it its financial impact before executing it.

3. Narrow the gap between receivables and payables.

Another thing that part-time CFO's examine is the difference in the number of days of sales in the accounts receivable and accounts payable of the company. The larger the gap, the tighter it makes the cash flow. If a business is collecting receivables in 70 days and paying vendors in 30, that's a wide gap. The part-time CFO will take action by encouraging the company to follow up on and bring down receivable accounts to 45 days, while stretching their vendors to perhaps 40+ days.

4. Improve your margins

Understanding the implications of your profit margins is grossly underestimated in companies. Only an experienced "financial guy" can calculate and help you understand the significance of the numbers. For example, assume that you have $10 million in annual sales and you can improve your margin by 1 percent. That one percent is worth $100,000.

So by improving the margin by as little as 1 percent, you can add $100,000 to your bottom-line income.

Managing your profits is undertaken by the part-time CFO. They watch your margins, manage them and educate other top level executives on what it means. The surplus amount can then either be used for the business needs or invested elsewhere if not needed.

Entrepreneurs and emerging companies don’t want to think like small companies, especially when it comes to financial matters. Having an interim or part-time CFO focus on the money, allows the rest of your team to focus on growing the business and taking care of your customers.