

THE BLOG

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Small Business CFOs: Do You Need One?

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By Janine Popick

It's a growing pain that many small businesses have. Company founders and CEOs are rarely equipped to handle financing strategies, budgets and dealing with investors. But bringing on a chief financial officer is not cheap. If your company's revenue is growing quickly, you have new investors and/or you've received venture capital, it could be time.

When I started my online marketing company VerticalResponse, I made the colossal mistake of not hiring experienced people because I was so concerned about saving money. I raised a small amount of funding from friends and family as well as my own money. I'll admit, I was scared; scared of what I didn't know. I'm not an expert in anything related to accounting, so I reached out to one of my networks to get people I could have do these functions. After all, I was under the impression that launching our product and getting customers was most important, not to mention that's what I happened to be an expert in.

So I hired a part-time accountant who sent a part-time bookkeeper every week to do our books. The accountant and I met every quarter to make sure we were on track, especially with taxes. We did this over the course of a few years and it "seemed" to work. Only later to find out, boy, was I wrong.

Lessons Learned

After five years in business and \$4 million in revenue, I felt the need for this to be a full-time function. So I hired a full-time accounting manager to manage the accounting as well as our HR functions. The accounting manager recommended that we audit our books, which seemed like a good idea, especially since we had been having conversations about getting acquired. The auditors uncovered a horrific mistake that the previous accountant didn't catch: We were accounting for our revenue completely wrong (non-GAAP) and we had to re-state our financials, something you never want to do in your business. (Look at Groupon!)

Two years, 60 employees and \$8.6 million in revenue later, I started to have an uneasy feeling. We were at the point where we needed someone more experienced to not only run our accounting functions, but really look at our business model, the key drivers in our business and how we were managing those drivers. We had been using my Excel forecasts for years, which were outdated and did not capture and reflect all aspects of the business. Plus, this responsibility was just getting too big for me, especially considering the fiduciary duty I had to my shareholders. I felt I really needed someone at that level I could trust as a "partner" and fill in where I lacked in capability, as well as issues that were over the accounting manager's head.

Attributes of a Great CFO

I turned to a headhunter and over the next four months we canvassed many resumes and finally found an amazing CFO with the experiences we needed for our growing company. Within

months he instituted policies that cleared up our accounts receivable to negligible amounts, and re-built a business model that I had been working off of for years. It was clear that he was far and above what an accounting manager alone could lend to our business.

Our CFO made it a point to understand the business drivers and began to institute policies and “controls” that we needed as a growing company. Pretty quickly he replaced our accounting manager with a controller who not only had experience in a company our size, but was instrumental in replacing our credit card processor with a lower cost provider, and hiring better tax accountants that enabled us to claim hundreds of thousands of tax credit dollars that we previously never utilized. He also stepped outside of his world of finance and dove into other parts of our business. For instance, he made it a point to understand why our customers call in or email our customer service team. Instead of instructing the team not to stay on the phones too long with a customer, he looked at it as an opportunity for us to give really great service, which gives us a happy customer, who may tell their friends who might become customers in the long run.

In my opinion, a great CFO walks around and talks to employees, understands customers’ needs and understands where the business is going. They do not sit in their office only crunching numbers; they should have a feel for where those numbers come from.

Do You Need a CFO?

Personally, if I had to do it all over again, I’d look at it this way:

- **Bookkeeper** - Manages your books manually or through some accounting software such as QuickBooks, can give you a balance sheet, gives you your P&L. They categorize items for you to track. They’re great if you only have a few employees and sell only a few products, you’re growing slowly and there aren’t many changes year to year.
- **Accounting Manager** - Oversees a bookkeeper or staff accountant, might help with tax planning and payroll, and can provide basic financial reporting. They’re great if you’ve got more than five employees and you might have a slightly more complex structure where you’re selling multiple products and/or services and are growing moderately.
- **Controller** - Oversees all accounting practices of the company and implements some policies. You’ve probably raised money, you’re growing moderately to fast and you’re adding new product lines quickly. He/she can help you understand what the numbers mean by providing a level of financial analysis and more robust financial reporting.
- **CFO** - Refines and has a deep understanding of your business model, has your banking relationship, works with banks for financing, works with your board of directors, prepares detailed financial and management reporting, works with auditors, performs tax planning, sets policies around controls, sets policies around payroll, does budgeting and forecasting, deals with mergers or acquisitions, handles any compliance issues. Great if you’re growing fast, have a lot of employees, offer complex product lines and are growing quickly.

Whatever stage you’re at in your business, whether you’re just starting out or rapidly growing, you should always assess your accounting and finance status, what your needs are and where you need to be going. We’re all under pressure to save money and be more efficient with

expenses; spending some money on great finance and accounting people can actually help in both areas!

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