The Outsourced CFO: Does Interim and Part-time CFO Help Make Sense?

THE CEO'S SELECTION CRITERIA

TechCXO®

The idea of an outsourced CFO used to be an oddity.

No longer.

Since 2000 and the end of the IPO boom, companies have increasingly delayed hiring a full-time CFO until they faced a significant financial triggering event. However, with rapidly changing business models and dynamics, companies are keenly aware that expert financial management is a requirement for their business and financial expertise must be represented on their team.

To provide financial leadership and avoid common mistakes that can derail a company's plans, the outsourced CFO model has become very popular and successful. By keeping in mind a few guidelines about the company's requirements, expectations and resources, a company should be able to locate an outstanding financial professional at a good value to help hem grow responsibly.

Increasingly, CEOs are outsourcing the finance function on a project, part-time or interim basis to an experienced CFO who often brings highly specialized skills to his/ her assignment. Depending on the circumstances, it may be more efficient and cost- effective to bring in a hired gun.

This approach affords CEOs the flexibility to bring someone on without incurring significant overhead. Consulting contracts usually have very short termination periods and help avoid recruiter fees, too. Thus, CEOs can tap their network to not only find someone quickly and cost-effectively, but they may even be able to find someone with highly specialized skills to help solve their current issues.

Currently, the environment for securing top executive and senior financial talent is shifting. Did you know that:

The average CFO base salary is $286,000, and $197,000 for public company CFOs.

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Heightened compliance and transparency pressures are continuing to affect compensation programs (e.g., say on pay, reduction in change-in-control benefits, clawback policies, CEO pay ratios).

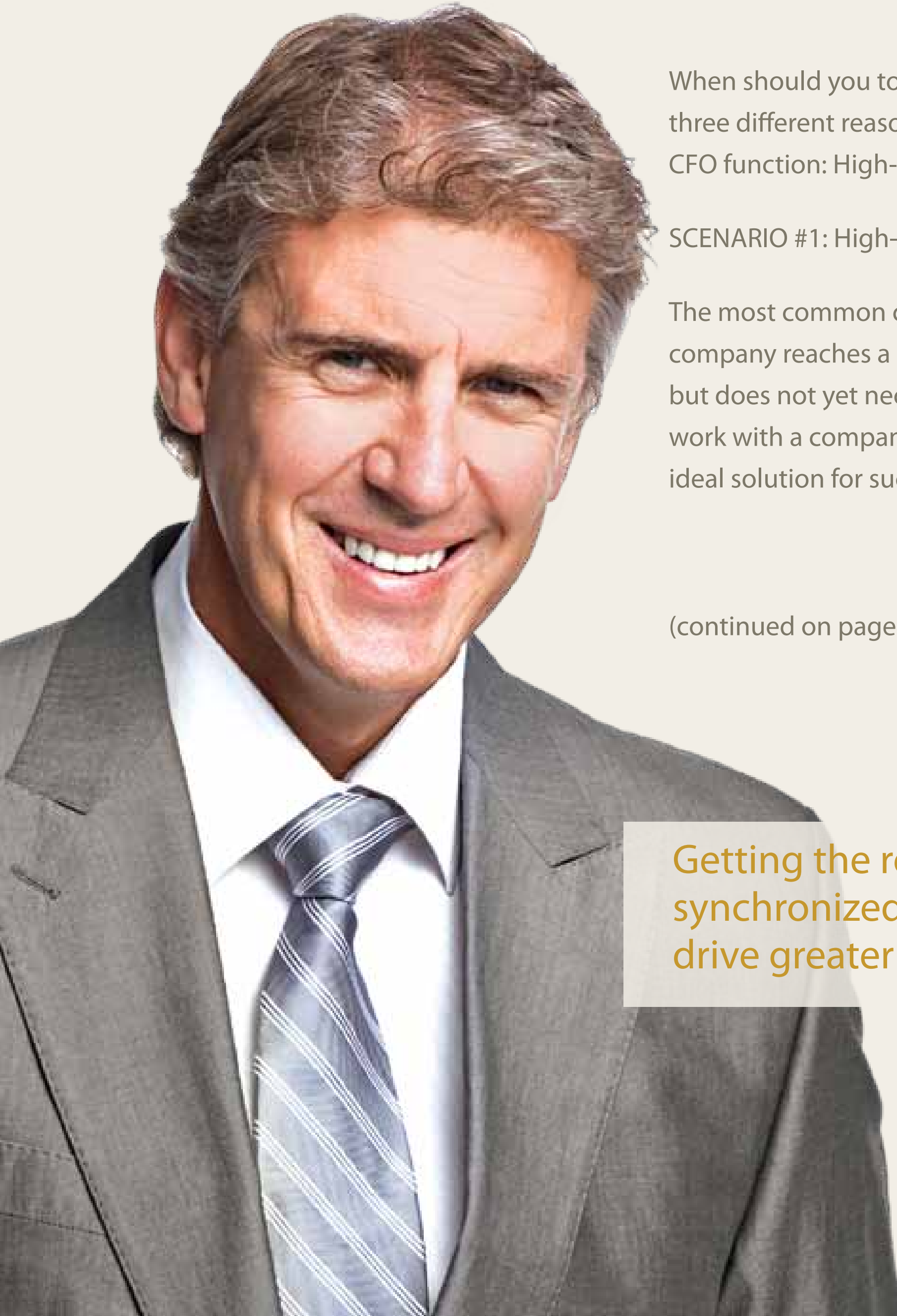
Pressure is increasing on officer performance management processes and performance tied to pay. In response, organizations are making programmatic changes such as increasing the use of performance shares and applying more rigorous incentive goal-setting methodologies

The majority of executives expect significant perquisites and contracts for termination and change in control.

OUTSOURCING CFO WORK IS A VIABLE OPTION.

Are you facing any of these challenges? TechCXO can help.

Our Finance Practice partners combine deep practical experience, comprehensive resources and best-of-breed practices to deliver objective, high-value financial and management consulting services for private, venture-funded and publicly-traded technology businesses through all stages. Our clients include angel, venture and private-equity backed tech firms, small cap public companies, rapid growth companies or companies with interim or complex project needs.



Outsourced CFO: Timing

When should you to think about an outsourced CFO? There are typically three different reasons that a company would consider outsourcing the CFO function: High-Growth/High Stress; Specific Projects; Transition Issues.

SCENARIO #1: High-Growth/High-Stress

The most common catalyst for considering an outsourced CFO is when a company reaches a certain level that requires more experienced leadership, but does not yet necessitate a full-time resource. Part-time CFOs who will work with a company on a day per week or two-day per week basis are the ideal solution for such companies.

(continued on page 6)

Getting the rest of the organization synchronized can help both the CEO and CFO drive greater revenue results.

KEY BENEFITS

	IN-HOUSE:	TECHCXO:
OVERHEAD	YES	NO
RECRUITER FEES	YES	NO
EMPLOYMENT CONTRACT	YES	NO
SR. LEVEL EXPERIENCE	POSSIBLY	YES
PROVEN SUCCESS	POSSIBLY	YES
INDUSTRY KNOWLEDGE	POSSIBLY	YES
LEADERSHIP	POSSIBLY	YES
PERSPECTIVE	UNKNOWN	CLIENT FOCUSED
COMPENSATION	COMPETITIVE + PERQS	HOURLY OR FEE-BASED
BOARD EXPERIENCE/INFLUENCE	POSSIBLY	YES
ACCESS TO CAPITAL	POSSIBLY	YES
CLIENT CENTRIC	POSSIBLY	CORE VALUE
MAIN CONCERN	CAREER	CLIENT
MANAGEMENT EXPERIENCE	POSSIBLY	YES
OPERATIONAL COMPETENCE	POSSIBLY	YES
SPEED OF RESULTS	UNKNOWN	ACCELERATED

OUTSOURCED CFO: TIMING
CONTINUED

Companies that reach an inflection point in their growth usually do so for one of the following reasons:

SCENARIO #1 HIGH-GROWTH/HIGH STRESS

- Increasing number of transactions, such as more customers, more employees, more vendors
- Increasing complexity in the business that requires more experienced leadership and better planning to develop policies and procedures
- An inexperienced Controller or other finance staff member who may simply need a mentor
- The company has raised or intends to raise significant ($1 million or more) funds from outside investors
- A merger or acquisition of a line of business that requires acquisition accounting and reconciliation between multiple systems.

OUTSOURCED CFO: TIMING

SCENARIO #2 HIGHLY-SPECIFIC PROJECTS:

Often a company will require specialized skills to address a very particular problem. Audit firms are increasingly unwilling to risk compromising their audit function by providing in-house consulting services and will instead refer the company to a project-based CFO. Some common projects that might require outsourcing include:

- Issues with revenue recognition, international expansion or sales tax cleanup or strategy
- Sarbanes-Oxley compliance or pre-SOX preparation
- M&A activity where the company is either the buyer or the seller and needs help either evaluating the target company or properly packaging the company for sale
- Pre-audit cleanup work to get the company's financial statements in shape to actually begin an audit
- Equity issues such as 409a valuations or 123R calculations.

SCENARIO #3 TRANSITION ISSUES:

In these cases, a company has no CFO in place and wishes to find an immediate resource to fill the gap until they can hire a permanent CFO. This is usually a role for an interim CFO who will commit substantially all of his/her time to a company for a limited period. It is not unusual for this person to become a permanent placement if both the company and the CFO are happy with the fit.

Unlike part-time or project CFOs who generally make a living by working on an outsourced basis with a number of different companies, interim CFOs are often finance professionals who are between opportunities.

High-growth companies can become victims of their own success. When requirements for people, technology, facilities and capital accelerate, new strains may be put on the organization's structure that require skilled, professional and experienced guidance.

CFO
BEST PRACTICE THOUGHTS

Our consulting philosophy is to share successful processes we have used along with other organizations' best practices. Why wander through a mine field without an experienced guide? TechCXO provides techniques and insights that are strategically sound and tactically effective. We also provide solutions and implement them.

FOR THE CEO WE PROVIDE:

- Increased credibility with Board, prospects, partners and suppliers.
- Attention/attraction of equity investors.
- Better cash management.
- Upgrade from general bookkeeping to build a real finance and accounting department.
- Improved negotiation of contracts and agreements, as well as improved audits.
- Collaboration of senior team for the C-Suite to become more effective.
- Optimized profits and improved working capital.

OUTSOURCED CFO: SUCCESS

Outsourcing your company's CFO can provide you with a higher return on your investment and sound business advice from an expert with an objective viewpoint

Some Rules of Thumb for Being Successful

1. Prioritize. It is important that both the company and the hired CFO are realistic about the goals and objectives they are trying to achieve given the time constraints or available resources. A few, very strategic, well-defined projects will be easier to manage than multiple, more tactical projects. Focus is key.

2. Create a plan. A project plan is a helpful tool to maintain focus and should include specific responsibilities by person as well as target completion dates for each project. This should be reviewed and updated by the CFO and his/her direct contact (usually the CEO) to ensure that progress is being made in the right areas.

3. Find the right CFO. Another rule of thumb is to correctly match the type of CFO with both the company and the work required. Not all CFOs are created equally. For example, if there is a limited finance team then the company probably needs someone who will roll up his/her sleeves. In this case, it is important to focus on the candidate's knowledge of financial accounting packages or the ability to build and maintain spreadsheets. During an M&A process, it is important that the CFO has prior experience buying or selling companies, working with investment banks and negotiating .

4. Industry experience. While many CFO's have a range of experience across various industry vertical segments, it is always desirable to match a CFO with the company's specific practice area. A manufacturing CFO will not have the same success in a biotechnology compa- ny as he/she would in a manufacturing company. Experience counts, but the type of experience can be critical. Like other professionals, CFOs have their own network of contacts. A CFO with industry specific experience can add tremendous value by introducing the com- pany to other service providers (bankers, lawyers, accountants, insurance agents) or potential employees from within the same indus- try. Someone outside the industry is likely to be less effective.

5. Goal alignment. To better align the company's goals with those of a temporary resource, companies often of- fer an equity component as part of the compensation package rather than an hourly or weekly wage. Similar to bringing on a full-time CFO, equity ties the financial success of the part-time CFO to the success of the company.

We are passionate about finance for our clients and its importance in the success of business. We bring a pragmatic approach to tackling the challenges and launching best practice solutions for you. We don't analyze and leave you with a tome to review, we are there to help implement the process.

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