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For Rent: Chief Financial Officer

Firms Outsource a Top Job as Cheaper Than Hiring Their Own Executive

By RAYMUND FLANDEZ

This past year, Al Lovata, chief executive of Be Our Guest Inc., cut expenses for his party-equipment rental business by laying off staff and reducing workers' salaries. He credits an "outsourced" chief financial officer with helping him prepare for the worst of the economic downturn.

The Boston-based company had sales growth in the double digits for the past few years, when revenue fell flat last fall. Now, thanks to the part-time CFO's guidance, the company is stable with revenue down 20% to 30%, but profitability higher than in the previous months, he says.

If we hadn't had this service, "we would still be struggling," Mr. Lovata says.

Some small-business owners in need of accounting help to balance their books and guide them out of a financial black hole are renting CFOs rather than hiring them. The strategy comes at a time when the deep recession has forced small companies to look for money-saving alternatives that can yield good returns yet avoid substantial overhead costs.

"They're looking for ways to streamline and be efficient as they can," says Glenn Dunlap, a co-founder of Milestone Advisors LLC, a small-business consulting firm in Indianapolis that provides CFO services.

The average annual salary for a full-time CFO in a small- to medium-size businesses ranges from \$94,250 to \$175,750, according to a 2009 Salary Guide by Robert Half International Inc., a Menlo Park, Calif., staffing services firm that serves the accounting and finance fields. Renting one can be significantly cheaper.

B2B CFO Partners LLC, a Phoenix, Ariz., firm that has over 100 CFOs-for-rent, charges at least \$300 to \$400 per month for the service. The company has doubled the number of small- to mid-size business clients to 650 since 2007, says Jerry L. Mills, founder and chief executive.

Business owners often want such a service when their company's finances are getting more complex and need someone with more financial expertise, says Germain Böer, professor of management and director of the Owen Entrepreneurship Center at Vanderbilt University in Nashville.

Still, he cautions that some small businesses that have simple financial structures or are completely self-financed may find renting a CFO not so useful. But "if you have a loan in the bank or an outside investor, something like this is well worth considering," he says.

These CFOs have a bigger role than accountants, who mainly keep track of the company's books. They work with business owners to manage their accounting and finance departments, connect them with business sources that can help them grow and provide financial data to help make strategic long-term or day-to-day decisions. Many are certified public accountants.

The payment structure varies. Some are on project-oriented deals, such as developing financial projections, assisting with raising capital or completing a business plan. Some are on-going in nature and can be based on an hourly or flat monthly fee.

Concerns regarding privacy from such consultants can easily be mitigated by nondisclosure agreements, experts say. Mr. Mills suggests that small businesses interview at least three CFO candidates, assess the quality of the firm they work for and avoid long-term contracts, if possible.

Some business owners turn to CFOs to establish proper bookkeeping systems. Ruthann P. Lacey, owner of a law practice in Tucker, Ga., brought in a part-time CFO in October. Before, an office manager handled bookkeeping while she also turned to her husband for ad-hoc financial and tax-preparation advice. "I didn't really know what the big picture was," she says. "I only knew we made payroll every month."

Upon the advice of her rented CFO, she installed QuickBooks software, hired an accountant and sorted out the company's accounts-receivable system, billing those customers who owed the company.

Ms. Lacey also began reviewing monthly reports about cash flow and profitability that's making it easier for her to make hiring decisions or put more into the marketing budget. She says she's quite happy paying the rented CFO's \$185 per-hour rate about 15 to 20 hours per month, because she can't afford a full-time executive. "This is something I should have done a long time ago," she says.

Entrepreneur Bob Compton, founder and chief executive of Vontoo Inc., an Indianapolis-based voice-messaging company, says he has rented CFOs for six companies he has started or been a lead investor in. "To hire a CFO in the early-going is a waste of money," Mr. Compton says. "It's much better to invest that money in engineers and sales people."

For Vontoo, he pays \$5,000 a month for the CFO's strategic advice, bookkeeping services and accounting expertise. "It's a tremendous cost-saving," he says.

A company outsider can also help deliver a reality check. Re.Source Partners Asset Management Inc., a reseller of technology products in Detroit, has used cash to fuel growth since 2001 but is now using a line of credit for the first time, and needed help managing the new financing. In 2007, Mike Loria, the company vice president, brought in a part-time CFO who advised the company to rein in aggressive plans for growth and prepare for flat sales this year of about \$9 million.

The CFO is more objective and "someone who can prevent us from making any bad decisions," Mr. Loria says. "It has really given us a level of confidence that we did not have in decision making."

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