

Hiring Your First CFO



Agenda

- Introduction – Hank Sprintz
- What's a CFO and why might I need one?
 - I already have an Accountant/Bookkeeper; how would a CFO add value to my/our company?
 - When is the right time and what should I look for in a CFO?
- Case Study: Learnings from Logan
- Q&A

Introduction



❧ Hank Sprintz

- ❧ Family Business Inspiration

- ❧ Education

- ❧ Silicon Valley Career (Intel, Xerox, Mellon)

- ❧ Intel: transition from engineering to manufacturing

- ❧ Start-ups:

- ❧ Mix of VC and non-VC-backed companies

- ❧ Several successful acquisitions

- ❧ A variety of excellent CEO's, Board members, and others

- ❧ Pitched to VC's world-wide (US, Norway, Taiwan, EU)

What's Your Goal?



- ❧ What's the Purpose of Your Business to YOU?
 - ❧ Provide Ongoing Income?
 - ❧ Grow it BIG?
 - ❧ Why?
 - ❧ Something Beyond Yourself
 - ❧ What's driving you?
 - ❧ Build it then Sell it?
 - ❧ Some income now but built for a future return?
- ❧ Action: Write it down. Every purpose is valid
 - ❧ Make sure you are in integrity with your purpose

The Opportunity



- ❧ What if you could achieve your Goal faster; more cost-effectively; with milestones and measurements backed with feedback and guidance?
- ❧ What if you could engage a “Sherpa” who will:
 - ❧ Examine the business foundation you’ve built;
 - ❧ Listen to and help refine your Goal (begin with the End in Mind);
 - ❧ Then assist you in defining the areas to invest; the order in which to proceed; and provide the steps to take to improve your odds of Success?

Is it better for me to ...



Invest in:

- ✧ a new or enhanced product-line (R&D)?
- ✧ Hiring employees? (Or engaging contractors)? Or neither? What about a PEO; what should I look for?
- ✧ Capital Equipment?
- ✧ Insurance (i.e., push the risk)? And if so, how much?
 - ✧ What about deductibles; premiums; self-insurance?
- ✧ Debt vs Equity?
 - ✧ How should I work with my banker?
 - ✧ LOC; LT Debt? Pricing?
 - ✧ Equity: at what value?
 - ✧ How do I speak with investors? What do they need to see?

Finance vs. Accounting



- ❧ Before Hiring Your First CFO, let's understand the difference ...
- ❧ Hiring an Accountant is VERY different than Hiring a CFO!
 - ❧ How so ...?

What is Accounting?



- ❧ Known as: “The Language of Business”
 - ❧ So, it’s VERY Important, but why the Distinction vs Finance?
 - ❧ Basics of Financial Accounting:
 - ❧ Dual Entry
 - ❧ Debits and Credits
 - ❧ 3 types of statements (inter-related):
 - ❧ Income Statement (i.e, P&L) – **Period of Time**
 - ❧ Balance Sheet (Assets must equal Liabilities plus Equity) – **Point in Time**
 - ❧ Cash Flow – The “pieces” during the **Period** that changed

Accounting (cont.)



- ❧ Types of Accounting: [Who is the Audience?]
 - ❧ Financial Accounting (e.g., GAAP; IFRS)
 - ❧ Cash vs Accrual
 - ❧ Many Rules! (e.g., Depreciation, Revenue Recognition)
 - ❧ Managerial Accounting
 - ❧ Cost Accounting (Story: Intel; how much do things cost?)
 - ❧ Product vs Process; Standard vs Actual; etc.
 - ❧ Tax Accounting (US: President and Congress)
 - ❧ Pass-through (“S”; LLC) vs C-Corp (Payroll and Dividends)

Accounting (cont.)



- ❧ There is so much to Accounting that some people make a very small piece their entire career!
- ❧ Demonstration:
 - ❧ Look in front of you: Your business future is in front of you.
 - ❧ Write down the biggest, most important accomplishment you intend to focus on for 2018.

Accounting (cont.)



☞ Everyone: Turnaround 180 degrees and look behind you.

Accounting vs Finance



- ❧ Finance: (Business Planning and Analysis)
 - ❧ Take where you've been (i.e., as described by Accounting; your experience; your results)
 - ❧ Understand your Vision
 - ❧ Help develop LT and ST Goals
 - ❧ Define and help Drive the Future with a focus on ROI
 - ❧ Project Future Financial Statements
- ❧ When do you need this?
 - ❧ Your Vision and Motivation requires that you Grow more quickly than you can possibly accomplish on your own.

A Great CFO



- ❧ A “Frustrated” General Manager: thinks like a business owner but is happy to provide guidance and enjoys seeing you succeed. That’s his purpose!
- ❧ What type of Experience should he have?
 - ❧ Size of Company [different CFO skills by size]
 - ❧ From Start-up to the size you aspire to reach during this part of the journey
 - ❧ Analytical yet Practical
 - ❧ Both People Skills and Negotiating Acumen

Metrics & KPI's



- ❧ A set of indicators and measurements that make it easy to gauge progress as well as spot issues to be addressed.
- ❧ Are there Industry standards?
- ❧ Competitive benchmarks?
 - ❧ DSO – Days Sales Outstanding [AR metric]
 - ❧ Inventory Turns
 - ❧ Net Income %; GP%; OH%; Marketing/ Adv%
 - ❧ Pricing metrics

Logan: Lost Empire Herbs



- ❧ Thanks for Volunteering!
- ❧ I reviewed Logan's financial statements and we met for 1 hour to discuss his business
 - ❧ Please share about the experience ...

Logan: Lost Empire Herbs



⌘ Metrics!

- ⌘ I added Inventory Turns –

- ⌘ Given the use of LOC ...

- ⌘ Achieving faster turns will increase cash and reduce need for debt by optimizing amount of inventory

⌘ Banks at Chase for LOC

- ⌘ Visit with the banker NOW! Before you need an increase. Tell him all about the great things and that you anticipate needing an increase in the future.

- ⌘ Ask: “What will you need from me”; then make sure to provide exactly that!

Logan: Lost Empire Herbs



❧ CC Merchant Fees

- ❧ Explore ways to get these reduced
- ❧ I believe given the low-return experience, it may be possible to find a willing clearing agent at lower cost.

❧ PEO

- ❧ Great decision!:
 - ❧ Reduces worker's comp (Get the PEO for "free")
- ❧ Get references:
 - ❧ Every PEO has a different set of strengths/weaknesses
 - ❧ Difficult to get a "divorce"; Look for a "match"

Logan: Lost Empire Herbs



❧ Year-end Sale:

- ❧ Original purpose was to help with taxes
- ❧ Now it's become an annual event and could actually INCREASE Inventory!
- ❧ Explore bringing the Sale "into November" or perhaps another time of year
- ❧ Analyze:
 - ❧ Similar Sales Quarterly or does this cannibalize the current model? Can we get creative?
 - ❧ What options are there to benefit from this type of sale but also avoid creating an inventory-related tax issue

Logan: Lost Empire Herbs



- ❧ Many Bank accounts (serving as “Jars”)
 - ❧ Consider consolidation
 - ❧ Simplification means less OH
 - ❧ Is there another acceptable way to ensure that Sales tax, etc. remains untouched?
- ❧ Work to expand the customer base
 - ❧ Has Loyal customers and already cross-promoting
 - ❧ Explore ways to find more loyal customers cost-efficiently

Hire Your First CFO



Q&A

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