

How outsourcing CFO services can help scale your business?

Written by Deepak Narayanan
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Outsourcing CFO services is a growing trend. Definitive statistics on the use of outsourced CFOs are hard to come by especially in a country like India, but there may be a few factors encouraging companies to embrace the strategy.

A CFO continues to be viewed as someone who is an 'insider' to the company that he/she works for. The number of experienced quality CFO's available in the market today is not in proportion to the number of companies that have mushroomed, grown and in some cases become large organizations. Apart from this, there are also companies that come up every year and some of them out of these survive and even manage to scale. Outsourcing in recent years has given mid – sized and growing companies the option to bring on board good quality CFOing skill sets through a firm/company given the gap in demand and supply. The gap lies in between the huge chunk of companies who are neither too small, nor too large and who find it difficult to attract the right CFO talent who could fit in.

Companies can outsource their CFO function in the following situations:

- Companies on a rapid growth path (whether PE/VC funded or otherwise) or who aspire to grow rapidly over the next 3-5 years
- New generation family members who have joined/ are set to join their family businesses who realize the importance of having a good quality CFO
- Promoters of family owned and managed companies who have misgivings of hiring a 'professional CFO' immediately and would want to transition this after having worked with an

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outsourced company

- Technocrats or professionals who have occupied a CXO position in the past before starting their own companies
- In an M&A situation where there is a need to get involved in a 'post merger' integration role
- Where an existing CFO moves out of an organisation and there is a need to bring in a replacement quickly

While it is difficult to establish a direct comparison between having your 'own' CFO and having an outsourced CFO, an outsourced CFO firm brings in certain measurable advantages and can assist a company to scale up in the following ways:

Institutionalize the CFO function: With a pool of people forming a part of this firm, client companies will be able to draw down on the collective experience of the firm rather than an individual. An average individual CFO may work across 3-4 companies as CFO throughout his career with an average CFOing experience of 20-25 years, while a firm has several man-years as experience to draw down upon, having seen varied situations, worked across different life cycles of a company's growth, with companies of various sizes and with varied ownership structures (Family Owned, PE/VC, Professional CEO, Multinationals etc)

Short notice hiring: An outsourced CFO service is an 'on tap' service allowing companies/promoters/CEO's to hire a quality person at a short notice, keep them for a period of time that is needed and get a full time in-house CFO when the need is met.

For high growth companies: High growth companies require different CFO skill sets at different points in time during their scaling up process. This is because it is getting increasingly tough for companies to accurately predict the growth rates and the situations that they will be in at some point in the near future. This also presents them with an issue in that the CFO hired today may or may not have the skill sets to manage the sudden growth. In a scaling up phase, an outsourced CFO firm also provides options of having people working on multiple projects within the Finance and Accounting Function (F&A) to keep pace with the growth.

Cut time and efforts: An outsourced CFO services firm will be able to cut time and efforts by being able to bring existing relationships with bankers, auditors, investors, external consultants

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which they have built either as a result of having served multiple clients or by having a team which brings these relationships through their previous employment stints. This cuts the time in having to develop these relationships from scratch and also results in cost savings (reduction in interest rate for instance), negotiation of better terms and also being able to define expectations better.

Having said all this, there are also disadvantages perceived to outsourcing. This is a model, which has and continues to work well in developed economies including UK, USA etc and has a long way to go before this can be termed as successful in India. There is massive skill and experience gap in the finance domain at all levels in India and the gap is not likely to go away very quickly. The outsourcing model is here to not take away jobs and make CFO's redundant (which is anyways not possible), it is here to add options to companies/ promoters/ CEO's/ funds and lastly the CFO's themselves since they themselves could use the outsourcing model to get the finance agenda of the companies that they work for accomplished at cost which are probably 20-25% cheaper.

About the author: Mr. Deepak Narayanan is the Cofounder of MyCFO (www.mycfo.in).