How Your CFO Can Help

By Verne Harnish "Growth Guy"

Businesses often under invest on the accounting side of their business, seeing it as pure overhead meant to be kept to a minimum. And given a marginal dollar, most business owners will opt to either spend it on acquiring more resources or making more sales. In fact, I've seen the best investment a company can make is bolstering the numbers side of the business. Hiring just one additional accounting clerk or a part-time CFO can double profitability and cash within twelve months. So how can they help the most immediately? Here are three ways:

Guidance on Pruning

Regular pruning is critical to the growth of plants; the same for your business. The key is knowing where to prune and how deep. And during turbulent times, it's often advisable to prune deeper. But you need the hard data to help direct the shears.

Have your accounting team give you a spreadsheet that shows gross margin dollar contribution (or just revenue) by product/service listed in descending order. Then walk down the list and draw a line when you reach 85% of your total revenue or gross margin dollars. Seriously consider eliminating the rest, taking the energy and focus you've placed on these underperforming activities and redirecting it to your top producers.

This same exercise should be repeated with customers, raising prices on your least loyal to either make them more valuable or drive them to your competitors. Obviously, this needs to be handled delicately and an evaluation of future lifetime value needs to figure into the decisions. Your accounting department can be helpful in providing this additional analysis.

Continue the exercise by location, opportunities, distribution channels, etc. What's critical is that someone is handing you a piece of paper (best if it's graphical) that is keeping you updated on the profitability/margin contribution by product, customer, office, channel, and/or sales person each week. Then you and your business unit leaders will have the data needed to make critical resource allocation decisions.

In my business, a recent analysis found that 247 customers of the roughly 2000 with whom we do business (and 20,000 in our database) represent 85% of our revenue. We've doubled up our efforts to service these customers, protecting our base, while identifying an equal number of new prospects that look most like these "best buyers" as Chet Holmes calls them in his book *The Ultimate Sales Machine*. A similar analysis of our channel partners and products has resulted in similar pruning, leading us to a doubling in profit in 2009 over 2008 (so far)!

Daily Cash Balance

If you've ever come up short of cash, as I have, you never want to be in that place again. That's why I've received a cash report each day for almost a decade. CEOs tend to focus more on the profit & loss statement and ignore their cash flow and balance sheet reports at their peril.

To alleviate this weakness, the daily cash report summarizes the cash on hand in various bank accounts, details what has come in and gone out in the last 24 hours, and projects what's expected to come in and out as far out as we have data.

By "following the cash" on a daily basis, I've learned more about the flow of my business than almost any other business tool. And by considering the impact on cash in making various decisions, we've been able to structure contracts, business arrangements, and/or avoid cash draining activities so we've had the cash needed to push through this current downturn. So far, so good.

Cash Conversion Cycle

Have your CFO download a copy of Dr. Neil Churchill's famous *Harvard Business Review* article "How Fast Can Your Company Afford to Grow?" In the article is a formula for calculating your cash conversion cycle, which is the length of time it takes from when you spend a dollar (rent, payroll, marketing, R&D, etc) to when it makes its way back into your pocket. This is key performance indicator (KPI) every business owner should know and monitor.

From this you can determine how fast you can grow on your own internally generated cash. Now that many traditional funding sources have dried up, companies that can generate their own cash to fuel growth will have a huge edge over those that have to spend precious time and resources raising more.

What the calculations also demonstrate is that you only have to make minor tweaks in getting invoices out a little faster or more often; collecting a little faster; receiving slightly larger upfront payments; and reducing your sales or delivery cycles by a few days and you can support a much greater growth rate.

And if you don't need the cash for growth, you can take it out of the business to reward your sweat equity or save it for more rainy days. Having your CFO focus weekly on how to continually improve this key metric will lead to important improvements in various parts of the business.

Additional Support

The suggestions above are going to require more accounting expense. In fact, some of the cash conversion cycle challenges are due to an under-resourced accounting department. In turn, these initiatives should pay for themselves in a matter of months, so spend an extra $50,000 initially on the one additional accounting clerk or a one-day-per-week CFO and take part of their results and continue to invest in the accounting side of your business. It will pay dividends for years