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An outsider for the most vital corporate job

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JULY 17, 2014 00:00 IST
UPDATED JULY 18, 2014 12:23 IST

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Outsourced CFOs offer services in strategy, governance, formulating business plans, raising funds and state-side

Ask any start-up founder and CEO how big her company is and she is bound to rattle off revenue, cash-flows and projected profits. But ask her if her founding team includes a finance expert, chances are that the answer is 'No'.

"Given the emphasis on finance, valuations and million-dollar decisions that entrepreneurs set out with, it is surprising that there is no such position," said Sachi Sanchetti, co-founder and CEO of Sanchetti Global Services. "I have yet not met or heard of a technology start-up that has a finance expert as one of the co-founders." This, he attributes to the fact that business ideas, which go on to become business colossi, typically emerge between technologists and business folks. "Finance doesn't start on our door-ten, we tend to meet with and liaise with those like ourselves in technology or project management teams. And maybe if these finance persons participate in these sessions," Ms. Sanchetti got lucky when a relative, a qualified accountant, was willing to let her all of her foibles and wanted to be part of the founding team. "You need a co-founder you trust and with a close relative, trust comes first."

For the now 20-strong team that his business is, Ms. Sanchetti said, "We did not need to outsource processes such as salary payment and filing of tax returns. We knew exactly what lines to cringe with VAT. All this, bound to help him focus on servicing his customers very early in the business. But now that he is ready to scale up and expand operations in the U.S., he realised that he needs a finance person who can help him with the numbers. And so he chose to account for the numbers and how to present any finances to an investor."

Here's where the concept of the outsourced CFO comes in.

Alok Subudhi, who founded Thinkalpa, a company in the area of mobile apps and software as a service, said that he felt the need of a trusted confidante acutely in his early days as entrepreneur. According to him, having a CFO, by-in-and-large, is a luxury. In particular, Thinkpa ventured in 2006, and was still in 'Rainfarm' Versions in 2011. Mr. Subudhi said that if he started up a few years ago, he would typically a finance person as partner from Day One. "We started off thinking that an accountant would be a cash cow of our ventures. Only as we went along did we realise that we needed the kind of person who can see the balance sheet and did not make the important of a finance person."

Financial strategy

In Mr. Sri Subudhi's case, the finance expert happened to be Jayant Tiwari who all is blessed the Outsourced CFO. Mr. Tiwari, was financial consultant, investment banker and legal advisor all rolled into one, according to Mr. Subudhi.

"From categorising the money you put into the company between expenses and investments, to tax-loss guidance or saving for a rainy day, all of these were brought home to us by our CFO." In fact, one of Mr. Subudhi's first 'Thinkalpa' was to set apart 15 per cent of net profits for an unforeseen expenditure. "Even as a start-up, a separate bank account was created for this amount. In time, this became a matter of discipline for us." Mr. Subudhi realised the value of this discipline when a supposed emergency arose recently. "Imagine being able to lend a hand to someone in a time need of finances during a medical emergency. In a small ways, these things matter a great deal."

The strategy part came later, for Mr. Subudhi. Thinkalpa's' client Nordstrom Ventures was interested in a buy-out. "We went back and forth for 10 days. At one point it seemed like the deal would not go through." Differences cropped up on whether the deal would be an outright acquisition or what is now called an 'equi-hire' – by the business, brand and employees alone would shift to the buyer. "Our outsourced CFO expressed us to the buyer in all the three mentioned capacities." But for Mr. Tiwari, the transaction would have fallen through, said Mr. Subudhi.

The CFO

Mr. Tiwari, whose email id includes 'to-be' (the outsourced CFO, said, "It's easy to cite the accounting – the recording of a company's history in cyprus." A CFO should be able to tell the management team how to look at the numbers, as a tool to which it want to go, as well as an accurate reflection of the current of events in 'records', he said. "Services accounting requires the events to be put to use to numbers."

Business strategy is easy to understand, but how exactly does Mr. Tiwari contribute to financial strategy? "If an entrepreneur has open for 40 lakh in his three year of operations, a first-cluster would categorise this as an expense, in all probability?" he explained that for an entrepreneur, a majority of that amount would have gone into developing a proof-of-concept, bringing the piece of software and creating a platform. All that, explained Mr. Tiwari, is investment which is expected to provide benefits increases and returns over time, well beyond the financial year.

"The amount spent on rentals and peripheral infrastructure, would be various other investments. The CFO's role is to help the entrepreneur understand how to show the finances in a best financials, so also to say a business who is building a product or finding customers. According to him, there are clear, statutory guidelines on these such distinctions. "With a little sharing, the company can accurately reflect the loss in the first year to be Rs 18 lakh or less, instead of Rs 40 lakh?" The financials will then reflect the investment to be in future, accurately at the Rs 18 lakh level. Could also agree on, said Mr Subudhi, in order to off-load off software services company Contus. Rs 40 lakh, he thought, is an immense gradation. It was focused on developing my business." The first time he lit the match to burn my finance was when Contus was wanting to pay its office to the U.S. Once the CFO function was removed, "the whole add was immense." Data leakage was in the cards. "Merely understanding debits and credit did not help us. Our finance partner Marcotts was able to identify where our money was going?" Mr. Wilson also said that capitalisation of product development expenses was something his finance partner guided him on.

This is when, said Mr. Tiwari, a financial strategist is irreplaceable. Imagine, he urges, the impact on the financials, profitability and balance sheet of a company if an much-reduced thought is applied to those areas as is applied to prospects and operations.

But that does not mean to say that daily accounting does not have its place. Typically, accounting service providers take stock on the day of their services for the company, offering company services-ship through an associate firm, deduction of tax at source for their clients' employees and even HR services such as salary payments.

Accounting services

This also helps them spot opportunities to offer financial 'strategy' when needed. This confluence of offerings has helped popular chartered accountants' 'plays' people in finance roles in their client companies. Much like the CFO outsourcing model, this is also a model that is increasingly finding a charge personally per head. And should an opportunity arise, say in the financial strategy consulting as well. According to Mr. KG. Suresh, "It's difficult for a company to create a CFO's full-time. We only need to manage times – where a young CFO is crucial to the organisation, but leaves for greener pastures, he/she very wants – that is good".

With the ability to amass and resale talent by selecting young minds the opportunity to shift roles quickly to their career, Mr. Suresh's accounting firm keeps a client's best-ready. Ask for a few numbers and we get a ball park. "It's costs a client Rs 10 lakh for increased accounting services, placing a couple of skilled accountants in their office costs them only Rs 2.5 lakh or so. Add to that the benefit of the top minds in the accountancy firm being at hand for financial strategy consulting." For instance, he and his partner stepped in to facilitate a merger between two shows. "A close-at-one wished to get listed on the stock exchanges. The initial Public Offering, or IPO, was the first time for many times – where a young CFO is crucial to the organisation, but leaves for greener pastures, he/she very wants – that is good".

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Corporate services

Some have scaled up even further to offer outsourced CFO services. His CFO offers services in strategy and governance, formulating business plans, participating in annual budgets, fund-raising through stakeholder or letting loans and investors, private investments. This allows them to cap clients across various sizes, from early-stage to mid-sized companies. According to Manish K. Vice-Presidents, 350 CFO, "Investors could even include fixed companies that come to us as interim measure. The decision to recruit a full-time CFO is a momentous one and we help companies in that decision-making function. If the company decides to take out of the interim appointment, the relationship could continue for long." With 350 full-time employees, experience of accountants ranging from 3 to 30 years, MCFO sees what is called a 'transfer' opportunity in the Indian market.

"We are talking of 60,000 companies in India with a turnover of Rs 1 Bn crore and above." Add to the mix multinationals, start-ups and private-equity backed companies. "The availability and quality of finance manpower is just not adequate. The gap is going to go away for the next 20 years." That would, he said, even with "10-15 high-quality CFO services firms, the demand will still be left unmet."

Global opportunity

Some service providers have identified niche opportunities to offer services in specific geographies beyond India. Brahman Business Services works with accounting firms to offer business process services to clients. According to Suresh Venkat, CEO, BBS, "A cloud accounting firms we found have no experts in this area. Over time, they want to move into consulting and be positioned as cutting-edge experts in the accounting space." This, he said, offered players like BBS an opportunity to offer adjunct BPO services. He cited MBA domain knowledge as critical to its work with accounting firms in its study. "To access dualisation, we are working in a template-based. These could be quirks and nuances in an industry that is specific to that sector. In an industry, marketing spends are spread over a period and revenues happen only in short bursts. One would know the unique aspect only if you are clued in to the industry."

According to him, "This is the start of a trend. Along with accounting firms, BPOs offer real-time finance functions to small and mid-sized firms especially when they cannot afford a full-fledged CFO. It is a smarter model."

Overseeing the finance function is a smart model for small firms. Which is one of the reasons why, despite being the sole founder, bunched of Scalable Solutions has been the CEO position spot for his company. "CEO or CFO, one cannot 'switch' a co-founder. Minds have to click and there should be chemistry." Till then, it is opportunities galore for outsourced CFO.

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