

By Carol Tice

Need a Financial Chief? Order Out

Increasing demand for outsourced financial help creates a booming niche

GARY TIDD took a hard look at the overhead costs of the company where he serves as CEO, storage-analytics software maker Estorian in Bellevue. His conclusion: With just \$3 million in sales, the company really couldn't afford its full-time chief financial officer. But venture-backed Estorian still needed expert financial guidance, including the preparation of quarterly reports for investors.

The solution? Tidd laid off the company's CFO and outsourced the job, hiring a CFO he pays by the hour from a national firm, Vcfo, which has a local office in Bellevue.

"We figure we'll save at least \$70,000 a year," he says. "And we're getting all the services we need."

Tidd's solution is part of a growing trend toward outsourcing the CFO job at small and medium-size companies, both public and private. A combination of market forces has created high demand for outsourced CFOs and other financial executives, especially controllers. Managers at local outsource companies think growth will continue, despite the threat of an economic downturn.

TACKLING TURNOVER

The whole financial job market has changed since passage of the Sarbanes-Oxley Act of 2002, which demands additional financial ac-



countability from public companies. Two things have happened since then to spur growth in rent-a-CFOs, says Tom Broetje, founder of the oldest local CFO-outsourcing firm, CFO2Go in Bothell.

First, the CFO job got a lot more stressful

and less desirable, particularly at publicly traded companies, where CFOs must swear out affidavits attesting to their numbers' accuracy. Pay increased as companies tried to hold onto their CFO talent.

But turnover still grew. Locally, in the past year, public companies including HouseValues, Blue Nile, Zumiez, Starbucks, Weyerhaeuser and drugstore.com saw their CFOs depart. A report from Atlanta-based outsource provider Tatum LLC notes, "What was once an attractive career destination and a prestigious senior management position has degenerated significantly. ...

Intensifying performance pressure within both public and private companies is forcing an evolution of the position, rendering the job virtually impossible for one person to do."

Turnover of public-company CFOs shot up more than 30 percent from 2005 to 2007, according to data from Liberum Research of New York. About three-quarters of the turnover took place at smaller public companies, with revenues under \$1 billion. *Forbes* magazine recently estimated the average CFO lasts just 30 months.

Meanwhile, the major accounting firms found themselves with a larger workload as their clients began complying with Sarbanes-Oxley. Broetje says the big accounting firms



I'LL TAKE THAT CFO TO GO, PLEASE...

The number of firms specializing in outsourced CFO services has grown in recent years, with two major national firms opening branch offices here, most recently Vcfo. The firms are also expanding to offer a broader range of financial management services, beyond just CFOs.

Company: **Vcfo** (Austin, Texas)

Local office founded: 2007

City: Bellevue

Specialty: Complete outsourced financial management, including bookkeepers, controllers, human-resource execs and CFOs

Website:

vcfo.com/vcfo/Seattle.aspx

Company: **Tatum LLC** (Atlanta)

Local office founded: 2001

City: Seattle & Portland

Specialty: Provides CFOs and controllers for small to medium-size public and private companies

Website: tatumllc.com

Company: **CFO Selections**

Founded: 2002

City: Bellevue

Specialty: Outsourced CFOs and financial-executive search services for small to medium-size private companies

Website: cfoselections.com

Company: **CFO2Go**

Founded: 1991

City: Bothell

Specialty: Outsourced CFOs, controllers and bookkeepers for entrepreneurial, small, and venture-backed companies

Website: cfo2go-wa.com

With fewer trained CPAs leaving the big firms to become controllers at small private companies, and eventually, CFOs, as they had in years past, smaller private companies were hard-pressed to find anyone willing to take those slots at any price.

Filling the gap are the outsource firms. Last year, Texas-based chain Vcfo opened an office here. Atlanta firm Tatum opened a Northwest practice in 2001, which has grown to a staff of 47 financial executives.

PROS OF GOING TEMP

With 15 CFOs, bookkeepers and controllers, Broetje's CFO2Go is going full steam ahead.

"This is the highest point we've been at with staffing," he says. "I just did a survey, and we're full up. I have no capacity. I'm looking to hire."

While Tatum has a specialty in helping public companies find temporary CFOs while they search for a full-time replacement, most of the local companies specialize in helping companies like Estorian, the smaller, entrepreneurial start-up that's growing fast but can't yet afford a full-time CFO.

Another example is two-year-old Theo Chocolate in Seattle. The company was selling its wares everywhere from upscale groceries to Pier 1 Imports, shipping a million bars of its organic chocolate a year. While he

has more than a decade of chocolate industry experience, founder Joe Whinney was serving as his own chief financial officer, and struggling to understand which of the company's 2,500 accounts were most profitable.

To unravel this mystery, the company needed more sophisticated accounting software. And Whinney needed to devote time to other pressing company issues, from sourcing organic cacao beans to looking for expansion capital.

Even if Theo could have afforded a CFO's six-figure salary, the company didn't have time to conduct a CFO search, a process that can drag on for six months or more.

Now, Theo uses a highly qualified temp CFO from local outsourcer CFO Selections in Bellevue. Whinney says the temp CFO has worked out beautifully, and he plans to keep the arrangement going until mid-2008, when he thinks Theo will be ready to hire a full-time CFO. When that time comes, CFO Selections can do the search as well – there's been so much call for help filling slots permanently that CFO Selections added search services 18 months ago, says company managing partner Tom Varga.

Besides CFOs, the toughest job to fill is controller, says CFO2Go's Broetje. CFO Selections, CFO2Go and others have added controllers to their staffs to round out their services.

Callison Architecture in Seattle recently used a temp controller from CFO Selections to assist their full-time CFO, Judy Peterson, while the company searched for a new controller, a search CFO Selections also handled in an expeditious 80 days.

Peterson says the outsourcer rode to the rescue after the company's controller quit just as Callison was acquiring a \$150 million firm, AGI International in Dallas, last fall.

"It saved us a lot of heartache that they had someone we could bring in on a temporary basis," she says. "It really kept the wheels on."

The economy may be headed into a slowdown, but CFO outsourcers aren't expecting any letup in demand, although the type of projects they're asked to do may change, says CFO Selections' Varga.

In the boom times, companies need help from financial executives to vet leases, prepare balance sheets for possible venture backers, and analyze potential acquisitions.

"When there's a slowdown," says Varga, "it's rationalization, how to implement cutbacks, or negotiate out of excess lease space. You do more shutdown work instead of go-raise-money work. That rings true to what I'm starting to see."

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