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A CFO guide for managing resources

The 7 essential areas in finance that need attention

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Managing resources is a challenge. CFOs need to constantly explore when it makes sense to curb expenses and lighten the load or to shift gears, load up and chase after growth. The decisions they make today have an effect on future expansion plans, the ability to meet everyday demands, and even whether the company can time their exit strategy just right.

Here are some real-life scenarios in Silicon Valley companies that we have recently seen: A rising startup that burns a hole in their cash pile doesn't notice until it's nearly all gone and they're then forced to lay off a big chunk of their staff—and then chase after a cash infusion, which of course does not have favorable terms. Then there's the biotech company with a single-digit staff on the road to IPO that doesn't realize they need to significantly build their team ahead of the public offering to even allow it to take place. Another common tale is of the public enterprise that has to vector quickly when an activist investor questions management about the excess cash sitting in the corporate bank account. A surplus of resources has its own set of challenges!

This guide is a prompt for managing resources more thoughtfully. It's an ongoing effort for CFOs as plans change and growth strategies need refining. Timing and pacing are everything. We go through the essentials, from fine-tuning plans and monitoring cash flow to getting the right talent and technologies at just the right time.

> CFOs face a constant juggling act whenever they deploy resources.

Craft a realistic business plan

Some business plans start out as scribbles on a napkin soon after a founder's "eureka" moment, while others are significant exercises between members of management in large companies. All plans turn into a living document that evolves with the business—a periodically visited tool for thinking through the near-term future of the company. A natural negotiation over the details should occur as the plan takes shape. Will the next set of goals in the plan be matched by the right level of resources? Or are the objectives (double-digit growth in a year, gain significant market share, etc.) doable with current resources? Rather than focus the talk on filling any knowledge and skills gaps, it should center on the benefits the company will achieve from deploying those desired resources.

It's always good to spend energy thinking about resources and the timing that's involved. A company that is about to embark on a tricky transaction may want to take on interim expertise, which may be an efficient way to handle a one-time project without loading up on full-time skills they can't afford. It's a flexible solution that can also be just what is needed when resources are tight. Then again, permanent expertise may be a better choice given the circumstances.

If the business plan calls for the development of a new product line, when will a new team be brought in? Bring them in too early and you have pricey people on hand before they are needed. Wait too long and you've got the risk that a competitor out there is beating you to the punch. That's the art of picking the right resource level at the right time.

Companies need to be strategic and skillful in how resources are deployed. The business plan helps set the groundwork for pulling it off, as do policies that can rein in loose budgets. A tech site that's expanding rapidly, for example, with a stream of new customers, revenue and employees coming in daily still needs some order. The fast growth will not last forever.

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Watch cash flow like a hawk

At various times in the course of the business lifecycle, many companies lose sight of their cash flow. They get hyperfocused on chasing after revenue, market share or some other all-important metric while overlooking the fact that they're spending more cash than what's coming in and they're running out of runway. Such companies may not have the systems in place to keep track of their cash flow and fool themselves into thinking they have enough on hand to pay their bills and still somehow spend at current levels.

Unfortunately, ignorance is not bliss in this scenario. It will lead to a squeeze on resources if the company does not get a handle on its cash position. We were once brought in to assist a growing company that had experienced a shocking wakeup call. They had ran out of cash and were unable to pay all of its employees (it had to lay off a third of them). Youch! By the time they called us in to create a much needed cash management and monitoring system, they were in the process of trying to secure a quick loan.

Distraction got them into this mess. The company's view of their cash flow was blurry as they did not have a full-fledged accounting department at the time. The company as a whole was mostly concerned with what seemed like the most important matter at the time—winning sales. But sales don't matter if you have no way of paying people to churn out the product you're selling. This company paid dearly with lost talent and a high-priced financing agreement.

Another way companies lose sight of their cash position begins with a transition, such as when they grow beyond the leanness of the entrepreneurial years or expand through acquisitions. New employees come in and new business units are formed that may have no set limits on spending. No one is following any spending rules—because the rules don't yet exist. A hotshot executive may come in who is accustomed to certain T&E budgets, with business-class seats and limo service, that are way over the company's norm of promoting back-of-the-bus camaraderie for business trips. Spending policies may need to be redrawn (or created as the case may be) to put a stop to lavish meals and ever-expanding food stipends.

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Policies and procedures can protect the company's expansion efforts. Authorization limits are one tool as is a monitoring process. Compare every month to see where the company is at with the plan, to avoid having people going off and spending money without proper approval.

Larger companies that do have tight systems in place may find they have the enviable position of possessing excess cash. They need to be as careful with how they manage it as they would if they did not have any.

Companies should aim to get maximum value from it, or else they could be pressured from the outside, like activist investors who have their own ideas about getting a proper return that may not mesh with those of the senior leadership team. Put the cash into stable investments (have an investment policy in place) or consider investing in other businesses. And keep monitoring.

Stay true to your growth strategy (and be sure you have one!)

In the beginning, social media companies focused their attention on getting massive groups of people to connect with one another. It previously had no role in people's lives, and now few can imagine their day-to-day existence without a scroll through their timelines and feeds. Facebook's strategy, for example, was to grow a social network and trust that the money would come later (which it did). It moved quickly and became—and stayed—the dominant player in its space.

What is your company chasing after at the moment, and is it following a predetermined path? A company that has not considered its growth strategy carefully is more susceptible to making wasteful choices with their resources. Consider the company with a hot app that gets overly rosy about their prospects and triples their hiring efforts, building out space, and doubling down on their core (and only) product. Can they keep up with demand, the need to onboard the new employees and still keep their eye on the marketplace, to notice signs that their awesome product is actually a fad? Will they see their competitors rapidly approaching, ready to pounce? And if they don't, then what are they going to do with all those desks and chairs?

There should be a method to the madness, with a collaborative effort across functions. The sales and marketing functions may be pressed to go out big with a new campaign, to bring in orders, but can the company handle the influx if they are successful? There's a temptation to ride the wave of being the new exciting thing everyone is talking about, but you also need a plan for when such talk fades away.

The wearable device market, for example, is a spot rife for this sort of mistake. It's still so new and there's room for entrants to barrel in and copy what's out there. A company has to act fast to win people over, but they may risk opportunities while they're distracted on other matters. Or they miscalculate.

The pace of growth may not always be controllable, but a more deliberate pathway can be developed. If the company's product is taking off, investors are excited and demand by customers is high, that's great—if the company can fill all the orders. Blow the promises that have been made, however, and watch the company's resources wither.

Seek the right talent at the right time

You get what you pay for is a truism even with people. Newly hired, inexperienced employees can sometimes bring progress at a company to a halt. They may save some short-term personnel costs and satisfy a budget limitation, but in the long run, too many fresh-faced hires could actually be very costly. This is something many managers tend to realize over time, regrettably. They think they can hire someone inexperienced and take just a bit of time to get the junior hires up to speed. But lengthy training sessions can limit the company's growth, taking up the time not only of the new employee but whoever is training them as well.

In the amount of time it takes to bring inexperienced development engineers up to speed, for example, a company could have acquired people with those required skills and got their product developed and out the door in a more timely manner at the required quality first time around.

We have also seen this mistake happen in many finance teams. Some companies try to hire junior finance people for projects that are way over their heads, with the hope they will somehow figure it all out. Eventually, the work will catch up to them though and they will need to hire more people to fix the mess. Many circumstances call out for seasoned pros. A newly public company, for instance, needs people with SEC reporting chops so they don't miss any of the pressing deadlines right out of the Wall Street gates. Post-IPO, the stakes are higher, the complexities are greater and the turnaround times for reporting are tighter. The risk of a delisting looms large if those deadlines are not met. There are even worse implications if numbers are misreported.

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Once the right employees are on board, do they have room to grow? Just as management needs to set the growth path for the company and share the map with everyone else, employees want to be able to see a path for their professional lives as well. Do most people have a way of moving up at the company? Do they have access to professional development tools? Career management options are helpful.

Another challenge to face is finding the right balance between the pace of the company's growth and the pace of hiring. Rapid growth without reinforcements could give everyone heartburn while slow growth can lead to an office filled with employees doodling at their desks all day. Companies can take this to extremes—afraid to over-hire, they churn and burn through folks. Take a look at the Glassdoor reviews of hot startups and see what some of the former engineers have to say. Some will report feeling like an underpaid cog who saw no end in sight to 16-hour days. The company had squeezed the most out of them while they could and didn't blink an eye when there were periods of a mass exodus. A company can ride the wave of being the "hot" startup for only so long before the war for top talent catches up to them too.

As much as people don't want to burn out, they don't want to be bored either. Hiring in anticipation of increased work should be used with caution. Employees (most of them anyway) want to be busy, they want to feel useful; they don't like to wait around and to be told that their moment is coming … any day now.

Employees want career opportunities, a clear route in front of them—or they will look for an escape route the first chance they get. Companies that think ahead and continually evaluate their talent pool have an easier time moving forward than those that have to keep getting into the recruiting line.

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Rightsize your systems

So often companies cling to what's familiar. It's the reason why many companies still manually enter some information for certain transactions just because that's the way it has always been done. They are not sure when to pull the trigger on an upgrade.

After all, moving up to a large ERP system, like Oracle or SAP, can be a pricey mistake if it's done too early. These systems for significant transaction loads are expensive to implement and have significant ongoing costs once they're up and running. Or you could end up waiting too long, or try to work on the cheap and unintentionally let a legacy system hold the company back.

Take, for example, a pre-IPO company that has outgrown a small-business accounting program like QuickBooks. Running on QuickBooks may mean you cannot generate the information needed for your regulatory reports. Any company going public will need a higher level system if they are to produce the right information for their SEC filings requirements. This is where a trusted advisor who really knows the business can offer much-needed guidance.

Here's a helpful hint for deciding whether it's time to make a tech switch: Will the new system result in significant efficiencies or get you the information needed to make better decisions or help the company meet its reporting requirements? Find that out.

Efficiencies are great not only for processing transactions quicker; they're also a huge morale booster that in turn inspires employees to work more efficiently. The more manual interactions that can be cut, the more efficiently the business can run.

The systems the company is relying on for running the business should be scalable and appropriate for their size and complexity. The more complex things get, the more programs that are geared toward simpler organizations will not suffice. Senior-level experts who have helped a range of companies with upgrades and technological change can provide objective and insightful views on whether the company should make a move now or hold off.

Turn real-time data into insights

With today's advances in technology, companies can come as close to possible to "real time" data as ever. They can see orders coming in, they can parse them out and make judgment calls on what buyers are thinking and how their spending patterns will play out.

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We're all still human, of course, and sometimes judgment calls are based more on instinct and assumptions than concrete data. It isn't pretty when that happens.

One startup we know was developing a hardware product that they predicted would sell 100,000 units from day one. It was not only a lofty, misguided prediction, the company also inaccurately estimated how much each unit would cost them to make. This meant they ended up losing money on each unit they sold, as they had priced their product based on volume manufacturing. They were working off the wrong assumptions.

Sound like an obvious mistake to avoid? We've seen it happen more than once. When it can take years for a life sciences company to come up with a perfect drug or a hardware company to devise a key component, it's understandable why some companies lose a grip on reality. Bloated estimates and overambitious attitudes can be righted when the company has accurate data on hand for their decisions.

Getting rapid customer feedback is critical. A/B testing can become a best friend here. Run a couple of tests and get real results of how people behave with your product or website, to make better, sound decisions. Make a tweak of a product on a small sample of customers and see if they balk or ratchet up demand. For a digital property, that could mean exploring whether allowing pop-up advertisements on the site will drive away a high proportion of annoyed users or whether the revenue coming in for those ads will make up for any lost business. Consumers see such experiments when they visit e-commerce sites and are faced with a different interface than their neighbor—a strong push to take a free-shipping offer versus an ad to get 50% off a bunch of sweaters. Which scenario is more likely to get someone to reach for their credit card?

Without access to accurate data, companies get mired in guessing games. The data companies collect from these experiments can have a direct effect on their ability to make better decisions to run the business and create sellable, successful products.

Know where the exit is

Even at the start, companies should be thinking about the end game. A growing company could have a detailed roadmap for two routes they hope to go down. An enterprise in the midst of an existential crisis may revise the exit strategy they crafted two years ago. The point is if the company does not have an exit plan, their chances of making a move at the right time will be mighty slim.

Senior leaders should have an understanding of the goals the company is ultimately trying to achieve. When it gets there, when would be the time to move on? Is it about penetrating a certain market? Creating something that 75% of American households can't live without? Personal wealth for the founders? What happens when the business value reaches its peak under the current model and needs some intervention for something bigger and brighter? Is the next step an IPO, acquisition or something else?

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Some companies go the next step by forging strategic partnerships with a closely aligned ally to offer something no one else is (such as a game app that agrees to exclusivity with a social media platform or a medical-testing company that joins forces with a national pharmacy chain). Such partnerships can give new life to the company. They need to be considered carefully though as they can also take a chunk out of the company's value if the relationship goes sour, if customers are turned off or the partnership does not play out as originally planned.

As much as possible, companies need to understand the key driver of their value and try to control it. You are better off giving this careful consideration rather than letting the market define the company's worth. Once that public market price comes in, your value gets boxed in and sales of your product could also be affected, not just the stock price. The company's potential can be squeezed and so can your resources.

Conclusion

A review of resources is often triggered by an event, and usually not a good one. We have seen companies falter because they weren't paying attention at the right time (that's why they called us, to bring some order to the chaos). They end up having to scramble to patch a problem, rather than focusing on growth efforts. The fact is, managing growth is an ongoing effort that involves getting the most out of existing resources and trying not to waste any.

Forward-thinking companies lean on experts who have been in a variety of situations to assess and fill their resource needs. Look for experienced pros who deeply understand high-growth environments and thrive in them. And aim for getting the right expertise at the right time so you are tapping this resource efficiently. Trusted advisors can help guide you on what's needed in the near future and beyond.

About the author

Stephen Ambler is a director at RoseRyan, where he manages the finance and accounting firm's most valuable resource—our consultants. He expertly develops our dream team of gurus and keeps them engaged. His interim CFO stints at clients have included a social media company and the management of the financial integration process at a company acquired by Oracle. He previously held the CFO position for 13 years at NASDAQ-listed companies, including Immersion Corp., Insignia Solutions and Bam Entertainment, which he took through its IPO. He also spent many years in auditing, including several as a manager with Price Waterhouse (now PwC) earlier in his career.

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