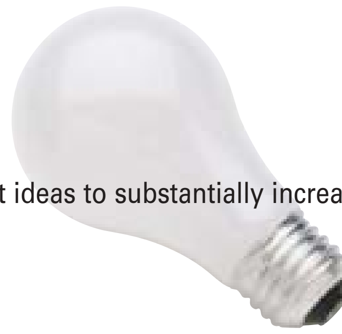
Profit Enhancement *Report*



Great ideas to substantially increase profits.

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Can’t afford a full-time CFO?

Outsourcing lets you “rent” one

Business owners often use outsourcing to lower costs and improve quality. As management guru Tom Peters said, “Do what you do best and outsource the rest.” But can a company successfully outsource chief financial officer functions? Actually, “renting” a CFO offers unique benefits for small and midsize firms.

Top-level expertise

Companies that can’t afford a full-time CFO stand to gain from having a highly qualified financial professional on their management team. The contracted CFO can be on-site several times weekly, taking responsibility for the financial area, handling strategic planning and being available for crisis management.

Many business owners already outsource to cut costs, eliminate functions they’d otherwise need to manage, and gain specialists’ expertise and efficiencies. But they’re still wary of outsourcing at the executive level.

To make outsourcing the CFO function work, company management should first think it through carefully, formulate their goals and plan how to give the part-time CFO the support he or she needs to do the job.

Doubts and concerns

As a business practice, subcontracting work to outside companies is relatively new. Thirty years ago, firms began commonly outsourcing office cleaning and custodial services. The next phase was contracting out for clerical, secretarial and mailroom services. More recently, business owners have come to view outsourcing as an option for many core operations.

But while owners frequently outsource financial functions such as benefits administration and payroll processing, most haven’t considered outsourcing senior financial management duties. The biggest worry? Financial information security and confidentiality.

While security and privacy concerns are real, they’re often overstated. For instance, one of the most sensitive areas for any business is payroll and personnel data. But most companies routinely send this information to a third party for weekly processing.

The reality is that companies managing data for multiple clients invest in security and confidentiality controls well beyond the means of any of the businesses they serve. The same is true of firms that offer CFO outsourcing services. What’s more, their reputations as financial professionals are tied to their ability to provide services securely and confidentially.

Affordable oversight

So what can a company gain from hiring a part-time CFO? In some cases, planning and oversight that can safeguard financial

WHAT OUTSOURCING A CFO *ISN'T*

Many owners of small and midsize businesses are reaping solid benefits from outsourcing the chief financial officer (CFO) function. But some owners are unclear about what to expect from hiring a part-time CFO.

For one thing, outsourcing isn't meant to be a tryout for a possible full-time CFO. If the company's growth and profitability eventually warrant filling this position and the owner decides to hire the outsourced CFO, that's great. But it's not the primary outsourcing purpose.

Second, it's not cost-effective for the outsourced CFO to perform accounting and tax services. Rather, his or her job is to ensure the accounting staff and outside accountants perform these functions correctly.

And, third, owners must remember that this is a part-time position — the CFO will occasionally have scheduling conflicts. He or she will not be down the hall all the time, like other employees, and will be responsible for other, equally important, assignments outside the company.

survival. Many small and midsize companies operate without CFOs, usually for cash-flow reasons. Normally the owner, office manager and accounting staff pick up the slack.

Unfortunately, these people seldom have the time or financial skills to adequately perform the CFO's duties. When a crisis strikes, they're caught off guard and don't know how to respond. For these companies, bringing in a part-time senior financial executive can be the perfect solution. By outsourcing the CFO position a company gains:

- The services of a senior financial professional at a fraction of the full-time cost,
- An executive who can focus on higher-level financial concerns and strategic objectives without being burdened by day-to-day accounting tasks, and
- The combined resources and intellectual capital of the outsourced CFO's firm.

Probably the most important benefit is freeing the owner or CEO from these financial-management responsibilities. He or she can then focus on growth, strategic vision and client satisfaction.

Open communication

Say you've contracted for a part-time CFO. How can you make the relationship work best for your company?

Communication is essential. The CFO will be away from your business more than he or she is present. So, make all types of financial information remotely available at any time. Thanks to e-mail, voice mail, wireless communication and secure Web sites, this should be easy.

To optimize your investment in an outsourced CFO, do what it takes to reduce or eliminate the time between information sharing and review and the management decision-making process. Then, regardless of physical location, the CFO can perform the functions you're paying for.

Management strategy

While outsourcing the CFO function is a relatively new concept, some business owners have begun using it as a management strategy with excellent results. If your company is too small to afford a full-time financial executive, look into the possible benefits outsourcing can bring. ■

A proposal's real purpose

Using it to make the sale

What's a proposal really for? It's not to let the prospect know how wonderful you and your organization are — that's the job of advertising and sales promotion. But it definitely should function as a sales tool.

Technically, a proposal is a document detailing the working relationship between a prospect company and a business providing a service. But their most important purpose is to convince prospects that you understand their organizations' needs and that you're prepared and qualified to satisfy them.

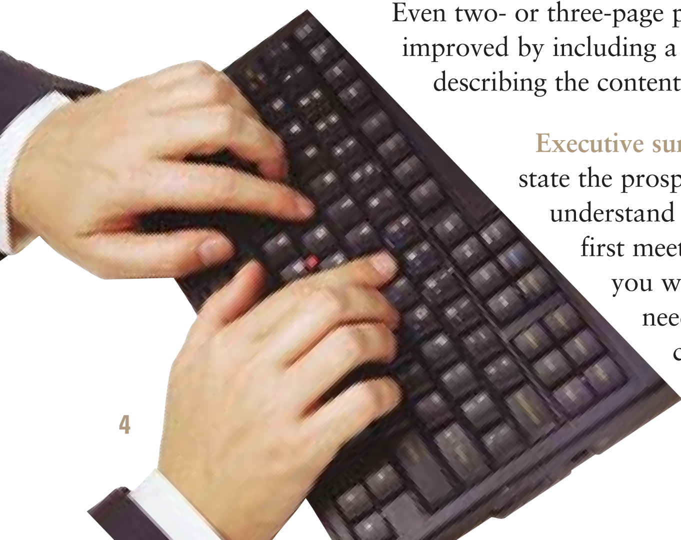
Structuring proposals that sell

You shouldn't automatically respond to every request for proposal (RFP) that comes your way. (See "Should you respond to an RFP?" on page 5.) But if you know you want the job after careful consideration, set up a meeting with the prospect. Make it face-to-face whenever possible. This helps you build a solid foundation and reach agreement on what the prospect is looking for.

Now you can get to work to structure a powerfully effective proposal. For starters, be aware that the content sequence usually doesn't vary much. What counts is how you present the details:

Table of contents. Always include a formal table of contents in lengthy proposals. Even two- or three-page proposals are improved by including a short paragraph describing the content.

Executive summary. Briefly state the prospect's needs as you understand them from the first meeting, explain how you will meet those needs, and set forth costs and terms.



Situation summary. Clearly describe your understanding of the problem to solve or goals to be achieved. You want to get the prospect nodding in agreement and thinking, "This company really understands what we need to accomplish." Also, try including an alternate view of the situation to show the prospect a slightly different approach to dealing with it.

Qualifications and benefits. Include education, special certification or anything else qualifying you to successfully undertake the project. But remember that benefit statements are the heart and soul of a proposal. For example:

- The system will eliminate or significantly reduce stock-outs.
- You can operate the system with 10% fewer staff members.
- You will always know where each parcel is at any moment.

And don't answer every question with a simple "yes" or "no" — instead, tell how you helped clients with similar needs. Just make each story simple, direct and creditable.

Milestones. Establish specific dates and times for tracking the project to its conclusion. Milestones allow you and the client to evaluate the program. You can also add milestones for implementation after you've achieved the client's main goals.

Costs and payments. Present costs either as a lump sum or distributed over milestones. Using a lump sum helps prevent nitpicking. Distributing costs keeps the prospect's mind on what the project will accomplish. This approach also helps determine what's owed if the project is canceled.

The client's responsibilities. For instance, the client will have to make timely information available. The most important

SHOULD YOU RESPOND TO AN RFP?

Requests for proposal (RFPs) aren't rare. Most of us have received them in the mail, via a phone call or e-mail message. RFPs come from all kinds of prospects — divisions of government, purchasing departments, Fortune 500 firms and organizations you've never heard of. Being wanted is nice, but it's not a good idea to respond to every one.

Before you fire up the word processor, ask yourself some tough questions:

- Do you and your company really want the job?
- Is it something you can do well?
- Will the finished job reflect positively on your company?
- If you haven't previously handled this type of opportunity, do you want to tackle it just to prove you can?
- Would the job expand your capabilities, regardless of payment?

Remember, just getting a job shouldn't be your primary goal. Your goal should be to do it well and learn from the experience, so both you and the client benefit.

considerations will vary from project to project. But it's usually critical to have a primary contact for progress reviews, budget questions and payments.

References. Omit references in the proposal. Instead, consider using a simple statement like, "If you decide to proceed with us, we will be happy to provide the names of clients familiar with our work."

Getting started. End by clearly communicating what the prospect must do to get the project underway. For example: "We are set to begin work on your project upon receipt of a signed copy of this proposal and your initial payment."

Making the sale

A good proposal is an invaluable sales tool. Remember to point out what you think are your approach's best features, so they're immediately clear to the prospect. The winning proposal will offer the biggest benefits, so use this opportunity to convince the prospect that they'll get more from your solution than from anyone else's. ■

Hidden inventory costs eat away at cash and profits

All businesses carry some unused inventory. Unfortunately, it may be doing more than gathering dust. If you don't know how much inventory is costing your company, hidden expenses can become a serious profitability drain.

Why? Most businesses segregate their inventory purchasing and processing expenses, but many ignore other substantial outlays. They tend to lump costs such as financing, management time, storage space and insurance into the general operating category. In doing so, they're hiding the true

price of carrying inventory. But when they learn what inventory is really costing them, they can take steps to manage and reduce those costs.

Will the real costs step forward?

A service business's inventory may consist only of office supplies or — for professional service firms — client files. A typical manufacturing company will have raw materials, work in process, finished goods, parts and supplies.

No matter what type of business you own, you incur secondary costs associated with inventory ordering, purchasing, stocking, storing, insurance and management. The most common include:

Financing. You may be paying a significant financing cost for obtaining and carrying inventory. Some examples are the cash you borrow to buy inventory, and your lost-opportunity costs because you can't invest those funds in areas like sales promotion or research and development.

Storage space. Whether you set aside a closet for office supplies, a file room for client files or a warehouse for finished goods, you're paying to rent or own it. Storing inventory also reduces the total space available for your operations.

Waste, theft and spoilage. Inventory gets old, lost, stolen and broken. The more you keep, the greater the risk and cost.

Personnel and equipment accidents. Your staff needs to count, organize, clean and otherwise handle the inventory. They risk accidents and damage to equipment in doing so.

Management time. The bigger your investment in inventory, the bigger the headache for management. Thus your inventory is consuming more of what is usually an organization's scarcest resource — management time.

Manufacturing expenses. The manufacturing process includes major and frequently overlooked inventory costs. Some examples are production inefficiencies such as excess material use, and quality control issues such as breakage and nonconformity to specifications.

And now for some cost controls . . .

After you identify your true inventory costs, you can come up with a plan to control, manage and reduce them. Over the years, companies have developed many inventory-management systems — with varying results. Here are two examples:

1. **Just-in-time.** Perhaps the most famous method manufacturing companies use is the just-in-time method, part of the just-in-time production system. With this method, inventory arrives at the next process in correct quantities and good condition, exactly when needed, almost always resulting in less inventory than needed in traditional manufacturing systems.

While just-in-time is a sophisticated inventory-management system supported by fully integrated software programs, its premise is simple: The less inventory physically on hand, the lower the associated costs.

2. **Calculating turnover.** Another popular and proven method is to manage inventory turns, or turnover. You do this by measuring how rapidly you consume raw materials or supplies or sell finished goods. Here are some examples of how to calculate turns by dividing usage factor by average inventory:

- ***Finished goods.*** Cost of goods sold divided by average inventory of finished goods.
- ***Work in process.*** Cost of completed goods divided by average inventory of work in process.

- *Raw materials.* Materials placed into process divided by average inventory of raw materials.
- *Supplies.* Cost of supplies divided by average supply inventory.

Common practice is to express the rate in number of turns per year, though some companies use average length of time per turnover. For instance, you'd express a turn rate of four times per year as three-month turnover.

The more you turn inventory the better. Why? So you can convert merchandise and materials into cash as quickly as possible. Holding inventory costs money. The faster you can push it out the door as sales, the higher your return on inventory investment and the better your cash flow.

The average number of inventory turns companies strive for varies greatly by industry and industry segment. The ratio is particularly critical for industries facing significant pricing and competitive pressures, low margins and fast obsolescence rates.

Dell Computer Corp., for example, has inventory turnover rates ranging from 30 to 40 times per year. But even companies with low sales volumes or slower-moving products stand to benefit from improving inventory turns.

Measuring to manage

The old saying, "you can manage what you can measure" is absolutely on point when discussing inventory costs. Figure out what inventory is really costing you, and you can start controlling your inventory-related expenses. ■

Build long-term loyalty by healing customer relationships

Long-term customers can generate from 50% to 80% of your revenue. Navigating the inevitable differences helps maintain a mutually beneficial relationship and strengthen customer loyalty.

To successfully resolve a conflict, you need to discover the customer's view of the facts leading to the complaint, and how he or she feels about them. Here are some tips for effective conflict resolution:

Don't be a know-it-all. Overtly displaying knowledge tends to maximize rather than minimize conflict. Instead, select understandable words — never use jargon, and don't shut down the information flow to contradict minor facts.

Stop interrupting. When a customer launches into a complaint, your natural response is to want to stop it. But interrupting keeps you from learning the customer's view of the facts. So practice being aware of and controlling your impulses to interrupt.

Quit being defensive. Defensiveness transforms conversations into arguments, with both sides talking but neither listening. The most common form of defensiveness is excuses. After hearing and acknowledging what your customer has to say, you may have earned the right to explain the situation. Before that, don't make excuses.

Share the customer's urgency. See the customer or return his or her call immediately. Make direct statements such as "I understand how urgent it is to address this issue." Let the customer know you're focused on resolving the problem now — and then take action to resolve it.

Face conflict. Good relationships are based not on an absence of conflict, but on constructive conflict. To keep things constructive, stay on topic. Digressing only dilutes focus and irritates your customer. Don't generalize — when you raise an issue, be specific. And avoid false agreement. If an issue is important, explore it.

Conflict skills rarely get discussed, but they're critical to building and sustaining a successful business. Offering quality products and services is only half the battle. You also must deal with moments of crisis and use them to strengthen customer relationships and loyalty.

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