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## Freelance CFOs, the unsung startup heroes

LUBNA KABLY, TNN | Jul 10, 2015, 01:21AM IST

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MUMBAI: Behind every successful startup, there is an unsung hero — the chief financial officer (CFO) and his team of number crunchers, whose efforts make that million-dollar funding possible. If you scratch the surface, it is likely that these number crunchers have been sourced from a CFO service agency, a trend that is gaining popularity in India.

Apart from first-generation entrepreneurs, several **venture capitalists** (VCs) also engage such agencies either on an ongoing basis for monitoring their investee companies or for specific projects — such as for building robust performance management information systems (MIS) or to act as interim CFOs. Even second or third generation-run family enterprises are hiring these agencies for that professional touch.

As financial information is sensitive, stringent non-disclosure agreements between an outsourced CFO service agency and its clients lends comfort.



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Startups in their initial stages don't need a full-time CFO. At a later growth phase, they may need expert help only in some areas. According to industry estimates, hiring an outsourced CFO service agency can result in operational savings of 30-70%, with savings being higher for compliance-related work. Fees charged depend on the nature of the job and can range from Rs 30,000 to a few lakh per month. Hiring an experienced full-time CFO would typically cost a company upward of Rs 50 lakh per year.

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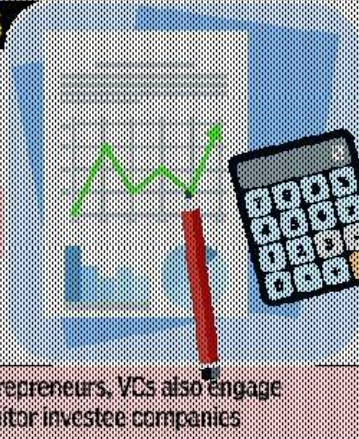


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**CRUNCHING NUMBERS**

- ▶ Estimates suggest hiring an outsourced CFO service agency can help in operational savings of **30-70%**
- ▶ Fees charged range from **₹30,000 to a few lakh per month**
- ▶ Hiring an experienced full-time CFO would typically cost upward of **₹50 lakh per year**



▶ **Apart from first-generation entrepreneurs, VCs also engage services of freelance CFOs to monitor investee companies**

Packages are available to suit every need such as compliance, process management or funding, with milestone payment and success fee (especially for funding-related services) options available.

A small business enterprise can even opt for a 'freelance CFO'. Bangalore-based Jayant Tewari currently dons the CFO hat at five different companies. This ensures that companies which do not have the bandwidth for a full-time CFO get the same expertise at a fraction of the cost. He works on a retainer basis and an hourly rate kicks in if the time agreed upon under the retainer is exceeded — such as during the busy months of a financial closure or a deal.

No entrepreneur worth his salt can ignore the importance of streamlined processes, timely reporting and clean books of accounts, which aid good decision-making. "VCs require the processes in a startup to be in place as visibility of operation performance is vital. Later, VCs need ongoing reporting to get an idea of the growth of their investee company. Thus, at the basic level itself, the account books have to be crystal clean," says Sanjeev Lamba, co-founder of Aristotle Consultancy, whose firm services clients such as Jabong, Fab Furnish, Food Panda and Press Play.

E-commerce companies tend to rely on current revenue run rate or cash burn rates for their projections. The outsourced CFO plays a crucial role in its monitoring. "Loose controls or missing transparency across investors-promoters are larger issues which the CFO has to focus on, especially in growth or hyper-growth cycles," points out Sanjay Gaggar, founder and CEO, ixCFO.

For a client in the e-commerce space, which was funded by private equity (PE), ixCFO's team kept tabs and helped control cash burn in a highly dynamic competitive environment. In addition, they also developed a reporting matrix to explain business scale viewpoint, a key performance indicator to the PE investor. Accounts were also kept in a due diligence-ready mode and the client subsequently raised \$100 million from a global VC.

Deepak Naryan, co-founder at MyCFO, illustrates how his firm helped a traditional 80-year-old traditional company, which was a leader in industrial fragrances, bag significant PE funding.

To begin with, implementation of better MIS systems meant greater visibility into its operating parameters. A credible investment case was built up, helping the promoters get a good valuation from the PE investor, and MyCFO facilitated a smooth transition in the company's management and continued to be involved in areas of budgeting, performance measurement and business intelligence.

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