



The Importance of Proper Financial & Operational Infrastructure

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Most Los Angeles and Southern California business owners and entrepreneurs start their businesses as sole practitioners, or perhaps two or three individuals starting a partnership. During these early stages of the company's development, proper infrastructure might not be too important — things are less formal and the owner or owners are often able to run things on kind of a “seat of the pants” basis.

As the company grows, however, establishing a formal infrastructure becomes more important. When a company reaches the ten-employee level, it needs to make sure that proper financial and operational infrastructure is in place if it wants to be successful and progress to the next level of growth.

Financial Statements and Forecasts

A key component of your financial and operational infrastructure is your financial statements, which consist of the cash flow statement, balance sheet and profit and loss statement (or P&L). These should be prepared by a trained accountant or CPA and be in accordance with generally accepted accounting principles (or GAAP). Financial forecasts are another important component of your financial infrastructure.

There are many potential pitfalls to not having a sound infrastructure in place as your company grows:

1. It will be difficult, if not impossible, to recruit venture capitalists, angels and other investors.
2. Ditto when it comes to obtaining a bank loan.
3. You and your managers will become frustrated with the inability to get answers to your questions about the company's financial condition.
4. The company's cash flow will suffer and you may be unable to pay obligations on time.
5. Internal control problems may arise, possibly leading to fraud and embezzlement.
6. Financial management will be impacted, likely leading to wasted funds.
7. Your accountant or CPA will not have the timely financial data needed to accurately compile your tax returns.
8. It will be difficult to generate the cost accounting and schedules needed for break-even analysis to assist you with gauging profitability.

How an Outsourced CFO Can Help

If your company has reached the critical ten-employee level of growth and you do not yet have a sound financial and operational infrastructure in place, it might be wise to hire an outsourced CFO services provider to help build this infrastructure. An outsourced CFO can provide the following solutions to businesses at this stage of growth:

1. Help define business goals and growth expectations.
2. Develop proper internal control systems.
3. Help recruit high-level administrative positions such as HR, payroll, IT management and finance.

4. Compile and/or review financial statements and make proper adjustments.
5. Develop a 12-month or 18-month rolling forecast.
6. Create a detailed cash flow statement.
7. Strategize debt restructuring and perform ratio analysis.
8. Prepare a company organizational chart that details lines of reporting authority.
9. Advise on hiring employees vs. independent contractors.
10. Introduce proper accounting software that is suitable for the business and its current stage of development.

Benefits of a Solid Infrastructure

With a sound financial and operational infrastructure in place, your company will realize a host of positive outcomes and benefits, including the following:

1. You will receive concise financial reports that will make it easier to obtain bank financing and/or venture capital or angel investments.
2. You will also receive daily internal reports that will help you make better financial and operational decisions based on the company's current cash flow.
3. Your CPA will be able to prepare better and more accurate tax returns in less time.
4. You will enjoy better relationships with your bank and vendors.
5. You'll have access to the tools necessary to operate the business in the most efficient manner and the funds needed for capital expenditures.

Concluding Thoughts

During the early stages of a company's development, proper infrastructure might not be too important. As the company grows, however, establishing a formal infrastructure becomes more important. Companies need to make sure that proper financial and operational infrastructure is in place if they want to be successful and progress to the next level of growth. An outsourced CFO services provider can help growing companies build the necessary and proper infrastructure for success. With a sound financial and operational infrastructure in place, companies will realize a host of positive outcomes and benefits.

About CFO Edge

CFO Edge, LLC delivers enterprise-class financial and operational performance solutions to executives throughout Southern California. Based in Los Angeles, our formerly-seated chief financial officers engage on demand as part-time CFOs, single-project CFOs, and interim CFOs to help business leaders successfully resolve pressing challenges and realize their financial and operational goals. At CFO Edge, we are passionate about helping our clients create, grow and sustain value. For more information, visit www.cfoedge.com or call 800.276.1750 Ext 101.

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