

TURN ON THE HEADLIGHTS

Primary Takeaways & Why it Matters to All Businesses

Imagine driving on a country road at night. How far down the road do you want to be illuminated to see the deer (obstacles) before it is too late?

- You cannot guide your company into the future by facing backward.
- If the only financial documents you reference are rearward facing, you have no forward illumination.
- Forward-looking financial information helps you to move from a reactionary mode to a proactive mode. This enables you to build your business in the most effective way, maximizing valuable resources.

Takeaway 1:

A COMPLETE FINANCIAL TEAM IS THE DIFFERENCE BETWEEN HISTORY & FUTURE

Imagine a baseball team comprising only catchers and pitchers. Despite their ability to work well together, they are not a complete team.

- **Bookkeepers** manage the simple day-to-day transactions and are rearward facing. The bookkeeper handles accounts payable, accounts receivable and payroll, etc.
- **CPAs** manage all things tax, including tax strategy and filing
- **Controllers** oversee bookkeeping and historical record keeping, assuring the company's historical financial records are complete and accurate. The controller is responsible for the month-end process, ensuring proper cutoffs and accurate accrual-based financials.
- **CFOs** are primarily focused on future-focused strategies. They perform operations such as forecasting, analysis, and financing. A CFO analyzes a company's financial strengths and weaknesses and will plan and execute strategies to maximize opportunities and positive outcomes.

WHY IT MATTERS

- Every company needs the services of a Bookkeeper, CPA, Controller and CFO. However, titles do not create actual skills. Calling a Controller a CFO does not produce CFO strategic guidance.
- CPAs are commonly engaged by small businesses on a part-time basis, which completes that portion of the team.
- Controllers and CFO leadership is also available to small businesses on a fractional basis.

Takeaway 2:

THERE ARE 6 ESSENTIAL FINANCIAL TOOLS EVERY CEO NEEDS, REGARDLESS OF BUSINESS SIZE

Financial tools should provide not only historical record keeping but also inform forward-facing strategies.

- **Accrual-Based Accounting**
 - Essential to be able to understand your business and to scale and grow it.
 - Imagine delivering goods or services only on Mondays, but collecting payment for them only on Wednesdays. According to cash-based accounting, Wednesday is your best day of the week and you should probably close the business all days other than Wednesday. Accrual-based accounting gives a more accurate view.
- **Budget-to-Actual Reporting**
 - Was it a good month last month? Did we reach our goals? How did we perform against our budget?
 - Budget-to-actual reporting creates accountability for the company, for departments, and even for individuals. It sets standards and allows measurements of performance against those standards.
- **Cash Projections (13-Week Cash Flow)**
 - Where the rubber meets the road. Cash is king.
 - A company can be profitable and still encounter cash flow challenges, especially if it is growing.
 - Cash projections illuminate cash needs before they become the deer in the road.
- **12-Month Budget: P&L and Balance Sheet**
 - Part of your mid-term planning and completed every year.
 - It is your goal-post and does not change during the year.
 - Budget-to-actual reporting compares against this budget all year long.
- **12-Month Rolling Forecast**
 - Updated every month with actuals.
 - Reflects the impact of changes which take place during the year.
 - Reveals financing needs/operations for the next 12 months (mid-term).
- **5-Year Forecast (P&L, Balance Sheet & Cash Flow)**
 - Sets the future mile markers.
 - Forecast how today's decisions will impact your business in the long-term, including profitability, liquidity, equity, and cash needs.
 - Improves decision making confidence.
 - Puts company in a more "athletic" position to advantage opportunities or manage challenges.

WHY IT MATTERS

- Finances are the lifeblood of every company. Financial reports detail the health, value, challenges, and opportunities of the company while offering actionable information.
- Financial reports provide a record of the past and illuminate a road map for the future.
- They are a reference of how different decisions may impact the company's profit, value and ability to meet obligations.

Takeaway 3:

ANALYTICAL TOOLS ARE THE CLOSEST THING YOU HAVE TO A SECRET SAUCE

While the 6 essential tools listed above are daily tools, there are also analytical tools which every CEO should have access to, and every CFO should be able to provide. These may include:

- **Contribution Margin Analysis**
 - How much does each dollar in revenue contribute to my company's overhead and profit?
- **Break Even Analysis**
 - How many widgets or how much revenue must I deliver to break even?
- **Product Line Analysis**
 - Which products/services contribute the most to a company's success? Which should I grow and which should I minimize?
- **Revenue Bridge Analysis**
 - We are experiencing increases in revenues. Is it because of volume or price?
- **Pro Forma Cap Table**
 - When raising equity capital, how will I be diluted and who will have control?
- **Pro Forma Liquidation**
 - When it comes time to exit, how much will I receive and be able to pass along to my heirs?

WHY IT MATTERS

- Sometimes small, seemingly insignificant details, can have a big impact on the value of your company and your personal stake therein, preserving or costing millions of dollars.
- There is confidence in knowing.

ABOUT PREFERRED CFO

Preferred CFO is a high-level strategic outsourced CFO firm. While we're experts in historical financials, the most impactful strategy we bring to organizations is implementing a higher level of forecasting and strategy to scale and accelerate growth, optimize resources, overcome obstacles, and maximize shareholder value.

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