



# **BUILD VALUE WITH A VIRTUAL CHIEF FINANCIAL OFFICER SERVICES IN 2016**

Presented by:

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# **BUILD VALUE WITH VIRTUAL CHIEF FINANCIAL OFFICER SERVICES**

## **SITUATION AVAILABLE**

Many businesses have a “situation available” for a wider range of services – but not many accountants are applying.

## **WHAT SERVICES DO SMEs WANT?**

Surveys undertaken by MYOB, CCH, Smithink and other organisations have all identified that SMEs are looking for a wider range of professional services from “someone”. The challenge for the accountancy industry is to ensure that “someone” is a professional accountant. This work will otherwise disappear to a range of other consulting firms and to those accountancy businesses that are better prepared.

The services, indicated by the surveys, as being sought by small/medium enterprises include:

- Future planning – where are we headed?
- Budgets and Cashflow Forecasts – trying to predict the financial needs of the business.
- Business analysis and interpretation:
  - Key Performance Indicators
  - Benchmarking
  - Ratio analysis
- Succession/Exit Planning - there are thousands of businesses that are planning, or considering, exiting over the next decade. Succession is not just when someone wants to retire. Succession applies virtually throughout the entire business structure. This involves an enormous amount of work.
- Management of Costs – would you be surprised to know that in the CCH survey, conducted a couple of years ago, “management of costs” was identified by the 1,200 small/medium enterprise operators interviewed, as being their single biggest problem. Is your firm offering a “cost management services”?
- Management Monitoring – this is a growing issue. We have been involved in various management consulting assignments funded by Federal government programs over the last twelve months, highlighting that even government agencies have identified that this is an issue for small/medium enterprises..... but have accountants?
- Business Plans – are like maps for tourists... if you don't know where you're proposing to go, how are you going to know when you get there? More importantly, how is the business operator to know when corrective action needs to be taken during the business journey?
- Assistance in Raising Capital – is your firm proactive in assisting your clients to get ready to be able to make investment pitches to Business Angels, Venture Capitalists etc.? Are your clients going to be able to take advantage of the opportunities emerging from the Australian government's Innovation Package relating to crowd-sourced funding companies and innovation companies?
- Grants available for SMEs – the Federal, State and Territory governments have allocated \$5B per annum for grants, special loans and incentives. All of your clients are contributing to this grant fund through the taxes they pay. How much money are your clients securing from the grant funds that they have helped finance?

## **WHAT IS HAPPENING IN THE MARKET PLACE?**

- The "Accountants Market Pulse" prepared by Beaton Research and Consulting for the Commonwealth Bank presented a report in December 2015 which summarised the views of accountants from all categories of the profession:
  - large firms
  - mid-sized firms
  - restructuring firms
  - other firms

The report identified that the "top service lines to enter and grow in the next 12 to 18 months" were:

- other firms
  - business advisory services
- restructuring firms
  - business advisory services
- mid-sized firms
  - business advisory services
  - management consulting services
- large firms
  - management consulting services

## WHAT OTHER SERVICES COULD BE OFFERED?

What other services could you offer to supplement the particular services that have been identified by SMEs?

Our suggestions include:

- **Debtors' Management**

According to Dun & Bradstreet, debtors' days outstanding are currently 45.1 days. A business with a \$2M turnover has \$5,479 tied up in debtors for every day debtors are outstanding.

Do you have clients with debtors' days outstanding around the average of 45 days? With some debtors' management advice, this figure could be reduced back to 35 days. This would save your client \$54,794.

- **Cashflow Management**

Cashflow management is not just preparing a computer spreadsheet; it requires some analysis to review:

- Debtors' Days Outstanding
- Stock Turn Rates
- Capital Expenditure Program
- Debtors' Factoring

- **Risk Management**

Personal Property Securities Register Due Diligence - The \$50M loss for a company not registering on the Personal Property Securities Register (PPSR) has sent shockwaves through the business community.

The NSW Supreme Court, in a decision on 11<sup>th</sup> February 2016, indicated that the receiver for the Forge Group (in liquidation) was entitled to the ownership of the Turbines, which have been the subject of court action against General Electric for the last 15 months.

The court's ruled that the assets, vested in the Forge Group immediately before Voluntary Administrators, were appointed. The assets, which were turbines with an estimated value of \$50M, were leased by General Electric to Forge.

What this highlights is that every small/medium enterprise and, for that matter, big business, is potentially at risk under the Personal Property Securities Act (PPSA) if they don't register their transactions and assets on the PPSR.

If a client has any assets that are situated on someone else's property, there are potential risks. Our recommendation to accountants is that you should be talking to your clients about this and advising them of the potential problems.

The other major issue at present is "preferential payment claims" being lodged by liquidators on businesses that have received payments in the 6-month period prior to the liquidator's appointment. In most cases, if that debtor transaction has been registered on the PPSR, the small/medium enterprise has no problems because the liquidator won't be able to chase up that particular transaction.

- **Corporate Governance**

Many clients operate their enterprises through companies. Corporate governance is a vague area and many of your clients could benefit from some mentoring on how best to operate their companies.

- **Chief Financial Officer Services**

What is required in a Virtual Chief Financial Officer Service?

The Chief Financial Officer in a public company does a lot more work than just worrying about income tax.

Regular tasks include:

- Review of investment, inventory and debtors.
- Analysis of Cashflow Projections.
- Preparing "what if" calculations for suggestions and ideas from the Chief Executive Officer and other members of the management team.
- International currency monitoring, currency covers.
- Working towards the achievement of a Strategic Plan.
- Detailed analysis of monthly "management financial accounts" – not the financial accounts designed for presentation to the Australian Taxation Office.

- **Cost Reviews**

Could your clients benefit from a detailed review of the assumptions on costs that they are utilising within their business? Is there an effective job cost system?

- **Research and Development Management**

It is amazing how many partnerships, sole traders and trusts incur large sums on research and development only to finally be alerted to the fact that they're unable to claim an income tax rebate on that expenditure because they are not operating as a company. I often wonder – didn't anyone in the accountant's team understand what the client was doing spending all that money on research and development - when they were not operating as a company.

One accountant once told me that the \$210,000 expenditure that the client made on research and development from a partnership was treated as "drawings"!

As the government is encouraging significant increases in innovation; more and more of your clients will be undertaking research and development activities. Do you have systems to assist them?

- **Business Valuations**

Many of your clients are developing intellectual property without knowing its value. As the government encourages more and more businesses and individuals to undertake innovation, monitoring the valuation of intellectual property within the overall business valuation will become very important for many in the small/medium enterprise community.

- **Strategic Business Consulting**

Accountants can play a "financial directors" role within small/medium enterprises that want to grow.... that have aspirations. Many of them will be prime candidates for the development of three to five year plans. Accountants can play a very important role in being the key strategic business consultant to monitor strategies for the changes that will be necessary in the business to meet the various business goals over the three to five years.

This is all exciting stuff, so what do you need to get going?

## **WHAT PREPARATION WILL BE NEEDED?**

- Firstly, it is very important that there is input from the partners. Who wants to be involved in these types of tasks? Some partners will want to stay with taxation and audits. I am not suggesting that the partners should necessarily be doing the business advisory services work. In fact, quite the opposite, I believe the partners' role is to act as the "rainmaker" and the "mentor" for the managers and the younger accountants and marketing personnel within your organisation who should be the prime delivery team of business advisory services.
- You will need to survey your team and find out who has an interest in offering a wider range of services.
- Probably the most important activity of all in this preparation process is to have some conversations with your clients as to what services they would like your firm to provide to them, because after all, they will be paying for these services.

My experience tells me that over 75% of your clients will enthusiastically embrace the concept that you're going to gear yourselves to offer a wider range of services. Some accountants baulk at this, but let me pose this to you: I have seen many accountancy firms that are charging a client \$5,000 to \$6,000 per annum and they tell me in amazement that they have found out that their client saw a business coach and paid the coach \$20,000 to \$40,000 per annum. Unless the coach is offering exceptional services, accountants, who are prepared to gear up to offer business advisory services, should be able to offer every type of service that the business coach is offering. My question is.... *why do accountants baulk at this challenge?*

- The team then needs to be trained. Business advisory services will not just occur.
- There will be some professional sales training required because selling business advisory services to your clients is not going to be as easy as selling taxation services because there is no government requirement to do so.
- Plan a series of small seminars with your specially selected clients.
- Invite these clients to a one-on-one meeting.

- Utilise the SMEs Needs' Analysis to assist your client to identify the services they would like you to prepare.
- To be successful in this market, accountancy firms will need to identify "Product Champions" and "Industry Champions".
- Review the services that you are going to offer to your clients. You don't have to start off offering twelve services from day one. Pick two or three; prepare them properly and then in six months' time offer another two or three products, so that over a two year period, you will be able to introduce around twenty products.
- You will need to formulate a marketing strategy so that your clients know that you are now able to deliver a broader range of professional services. It is important that you don't assume your clients know that you are offering these services.

## HOW DO WE GET READY?

- You will need to appoint a facilitator; it could be a partner, a senior manager or a consultant. Someone needs to be responsible for ensuring that, over a three to four month period, a training programme is implemented.
- My suggestion is that you have a weekly team meeting of the people who have indicated that they are willing and able to participate in the extra reading and training required and who have shown a willingness to offer a broader range of services.
- Facilitator's role – should be able to identify the extra training that is necessary for the various team members. It might be in public speaking, or in the presentation of webinars, or understanding more about a particular industry.
- The group should meet every week for two hours for around three months.

## WHAT IF WE ARE CHALLENGED ON OUR SKILLS FOR A CFO ROLE?

- I think one of the big challenges for accountants is that many of you are nervous about undertaking this new role to help your clients succeed. My suggestion is that, if any of your clients challenge your suitability to be offering a CFO role, you respond in a positive manner.
- Indicate to your clients – *"Sure we have traditionally supplied an annual set of accounts and income tax returns but we have been reading the surveys that have been undertaken within the small/medium enterprise market and we know what the surveys are saying".*
- "We have also been able to make various changes in our office because of "cloud" technology and the new products and services that are available. More importantly, we clearly understand what the market wants".
- "At university we all studied the same subjects when we undertook our Commerce degrees.
- In our professional year or CPA Entry Training Program, we undertook the same subjects as what our colleagues who are now working for major public companies did – there is no different program".
- "We have invested a lot of time over the last four months in surveys of our team to find out who wants to be involved in the delivery of business advisory services.
- We obtained feedback from some of clients on the services that they want us to provide".
- "We have also trained our team and have accessed tools to assist in the delivery of business advisory services".
- "We are confident that we can deliver an outstanding business advisory service for our clients to assist in building value".

## WHAT IS REQUIRED IN THE VIRTUAL CFO SERVICES?

- You will have to utilise technology to supply an "on call" service.

- The most successful firms will offer a range of products modelled on a public company Chief Financial Officer.
- Your firm will have to be structured so that you can quickly respond to questions “*Could we do this differently?*”, “*What would it cost to do this?*”, “*What are the alternatives that we have?*” These are the types of questions that the Chief Financial Officers’ of public companies receive.
- You will also be required to report on the monthly management financial accounts prepared on an individual unit or activity basis, not an all embracing Profit and Loss Account for a business with a number of different activities that needs to be dissected into the components so that management responsibility can be sheeted home.
- Key Performance Indicators for each of the operating activities that have been reviewed and analysed are very important.
- A “commentary” should be prepared on the business’ financial performance each month.
- Performing the CFO role will require you to identify specific items and ensure that appropriate records are being maintained from day one:
  - Research and development project costs.
  - Export market development grant progressive costs.
  - Budgets and cashflow forecasts that are regularly being updated.
  - Comparison to budget report.
  - Benchmarking is very important. How does this business compare to its peers? What can be learnt from the benchmarking process? What changes should management be considering?
  - Review of board reports.
  - Preparation of board reports on key financial matters.
  - Preparation of annual business value for the business, so that the management team understands, not only what the individual businesses are achieving within the business, but what is the effect on the overall business valuation?
  - Review of Buy/Sell Agreements – are they still appropriate? Is the insurance cover in line with the business valuation?
- Many business owners will have a different view as to what their businesses are worth, or might be worth in a couple of years’ time. This gives the opportunity for an accountant, to firstly prepare the business valuation, identify the valuation gap and then implement a strategy to assist the client and the client’s management team to bridge the valuation gap.
- I indicated earlier that there was over \$5B available per annum from Australian, State and Territory governments to assist small/medium enterprises. An accountancy firm that is committed to being a virtual Chief Financial Officer will be extremely proactive in the identification of grants for their clients. Not waiting for the client to come to you and tell you that one of their competitors has received a grant and they would like you to have a look to see whether they might also be entitled to a grant.
- As companies grow, more will need to implement appropriate corporate governance strategies to start boards of advice and properly structured Board of Directors. These entities will require assistance in a number of areas of corporate governance.
- Risk Management is an important issue in public companies and it is also very important in smaller entities.
- Are appropriate insurance reviews being undertaken, a least, annually?
- What changes could be made in debtors’ management to improve debtors’ days outstanding?
- What are the risks that the client is assuming through ignorance of the operations of the *Personal Property Securities Act* and the associated Personal Property Securities Register?
- How many of your clients are receiving letters from liquidators demanding payments under the Preferential Payments legislation?
- How many of your clients are at risk because they have plant and equipment stored at someone else’s premises or stock located at someone else’s premises?

- Are your clients aware of the strict time lodgement requirements of the Personal Property Securities Register otherwise assets can be forfeited to your client's customer's secured creditor!
- An accountancy business, offering a virtual CFO service, should be ensuring that the client's business is able to very quickly prepare the documents that are required to raise some additional capital or loan funds. Not take months to implement an investment ready status.
- Many SMEs complain that accountants only respond when they ask the accountant a question. If you were the CFO in a public company, you would be expected to be proactive in your advice and contributions. Why aren't accountants offering the same service to their SME clients?

## ARE YOU READY TO APPLY?

- I started this discussion with you with a heading "Situation Available" for a virtual Chief Financial Officer Service. Are you ready to apply? There is no doubt that there are a lot of challenges but if it doesn't challenge you, it doesn't change you!

The challenges include:

- Digital Disruption
- Standard Business Reporting
- Tax Returns becoming more of a commodity product
- Outsourcing – if you have competitors in your market outsourcing significant amounts of their work to overseas countries, at some stage this will become a "competitive weapon" against you in your market place because your competitors will be able to offer services at a cheaper rate.
- Outsourcing – will enable accountants to "free up time" to offer new services.
- I fear that many accountants believe they can ignore the challenges that are occurring in the marketplace and hope they go away. **Ignoring these challenges is not an option!**

There are many opportunities for accountants, including:

- In survey after survey, the SME market has identified that they would like to receive additional commercial services.
- As part of the Innovation Package, the Australian government is helping accountants with the introduction of two new classes of companies which will require significant accounting assistance.
- The Commonwealth Bank's "Accounting Market Pulse" has identified that 2016 is the year of "business advisory services".

To assist you to ease into getting ready and then delivering business advisory services, you can subscribe for individual packages including:

- Business Advisory Services Introduction Package, including ESS BASIP Training Programme for each package
- Personal Property Securities Register Due Diligence System
- Debtors' Management
- SME Debtors' System Manual
- Business Planning
- Succession Planning
- Chief Financial Officer Services
- Budgets and Cashflow Forecasts
- Business Evaluation Workshop
- Strategic Business Mentoring
- Buying a Business
- Selling a Business
- Business Health Checks

OR

you can obtain all of this and a lot more, from an ESS BIZTOOLS' Gold Package subscription.

ESS BIZTOOLS has developed a comprehensive range of tools to assist accountants to prepare for and deliver a Chief Financial Officer service that incorporates products for each of the items identified in the SME surveys.

ESS BIZGRANTS gives accountants the opportunity to offer a proactive service to identify grants that are suitable for individual SMEs.



Remember the warning from ATSA2014? Jason Bender from Deloitte made a very important presentation in alerting accountants to the challenges that were upon us. He finished his presentation by saying:

**"If accountants are not really careful the profession could really suffer"**  
**"Don't let this happen on our watch!"**

The team at ESS BIZTOOLS are waiting to hear from you now to assist you to get ready to launch "Business Advisory Services" in 2016.

**Peter Towers**

Managing Director

**ESS BIZTOOLS** and **ESS BIZGRANTS**

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