Examining the Chief Financial Officer role

Some businesses are easy to manage financially, making your job as the CFO relatively easy. However, other businesses require a lot more ability and discipline to manage financially, making your job as the CFO tougher.

So, which scenario is true for the business idea you are considering?

We need to find out how much margin of error the financial model of the business gives you.

For example, if your sales don't hit your expected targets, how quickly will this get your business into financial trouble? Or if you don't closely track your financial numbers and make needed adjustments, how quickly will the business go from being profitable, to losing money?

Think about it this way. Managing a business is like flying and navigating a plane.

A business with a financial model that is harder to manage is like maneuvering a Red Bull stunt plane through an obstacle course. You have to be constantly watching the indicators on your display, and you have to carefully maneuver your plane through. This type of a business journey is much tougher to pilot as the CFO.

On the other hand, a business with a financial model that is easier to manage is like flying a commercial airliner from Maryland to New York. You can take a quick glance at your flight indicators, and most of the time you can be on auto-pilot, only rarely needing to make sudden changes to the flight path. This type of a business is much easier to pilot as the CFO.

So does taking on a financial challenge excite you? Would you like taking on the challenge of piloting the Red Bull stunt plane?

Let's get into the factors that make a financial model tough or easy to manage.

The two main factors that affect this are gross margin and **cash conversion cycle**.

When the gross margin is higher, with each unit you sell, more of each sales dollar stays in the company to pay expenses and earn profits. So each sale has a greater positive effect on your company's finances. That means you don't need to sell as many units to break even, and you don't need to sell as many units to maintain profitability.

So if your sales decrease or your expenses increase, your business has a higher chance of maintaining profitability, compared to a business with a lower gross margin. This gives you, as the CFO of your business, some breathing room for fluctuations.

Take a look at these two examples, one for a business with a higher gross margin, and one for a business with a lower gross margin.

Higher Gross Margin:

10 sales at $100 each
$1000 sales @ 80% gross margin
$800 gross profit
$500 overhead

Profit = $300

Then if sales drop by 20% to 8 sales, $800 in sales, $640 in gross profit, $500 overhead = $140 in profit

Lower Gross Margin:

10 sales at $100 each
$1000 sales @ 60% gross margin
$600 gross profit
$500 overhead
Profit = $100

Then if sales drop by 20% to 8 sales, $800 in sales, $480 in gross profit, $500 overhead, that equals $20 in loss.

The higher gross margin business can still maintain profitability at a 30% drop in sales, while the lower gross margin can only maintain profitability at a 10% drop in sales. Having a business with a higher gross margin, contributes to making your CFO role a little easier, while having a business with a lower gross margin contributes to making your CFO role tougher.

Now, a quick note. For me, money is not the main driving factor in business. It's important to me, but it is not my main motivation.

I remember an experienced entrepreneur told me about the importance of a healthy gross margin early in my career. And though I understood it mathematically and intellectually, it didn't stick with me because I frankly find it depressing to do business just for money's sake.

So I want you to hold a wider perspective here. If you're more like me, remember that I am asking you to look at this, while also making sure that you find a business idea that you are excited about. That you have a personal interest in. I want you to enjoy what you are doing, and make good money doing it. Not one or the other. I also want you to keep another thing in mind about this. When there is more money to go around, it's more fun, and it is easier to be more generous and kind.

The second factor that affects how difficult the financial model is to manage is the cash conversion cycle—the timing of when cash comes in versus when it goes out.

Going back to the plane analogy. Cash timing is the fuel in the plane. If the timing gets too complex, the plane becomes extremely difficult to navigate.

A boring but quick primer -- Cash comes into your business when a customer pays you for a sale, and cash goes out when you have to pay your expenses. If you won a $100,000 sales order, but the customer is going to pay you in two months, you can't use it now.

If the business has a simple cash conversion cycle, it contributes to making your CFO role easier. This means you get paid quickly by customers and pay suppliers on standard terms—minimal timing complexity. If the business has a complex cash conversion cycle, it contributes to making your CFO role much tougher. This means long collection periods, immediate supplier payments, or seasonal timing mismatches—high timing complexity.

So what makes managing complex cash timing difficult?

To understand the cash timing point I want to make, let's first contrast this to the basic profit margin exercise we just did. As you get sales and pay bills, the bookkeeping or accounting function records this, and it is reported on the profit and loss statement of an accounting software like Quickbooks.

This is relatively intuitive for any business mind. I have set my prices, I know my expenses, and I check how this is going each week and each month.

When you have complex cash timing, there is an additional set of financial activities and indicators you have to keep a close eye on. In a business with complex cash conversion cycles, you have to closely track WHEN each customer will pay, WHEN each supplier payment is due, and manage the gaps between cash in and cash out.

Your bookkeeping entries have to be timely and accurate, and you have to pay close attention to a second financial statement for your business, called the cash flow statement. Tracking and understanding the cash timing of your business is not as intuitive for every business mind. It's really a discipline of its own, even more suited to financial or even engineering mindsets.

Ok, I'm going to bring this together now using the two businesses that I own as examples. The building materials company I own has low gross margin and a complex cash conversion cycle—customers often take 60+ days to pay while suppliers expect payment in 30 days. This timing mismatch makes the CFO role much more challenging**.**

It's one person's full-time job to work in the financial operations of the business. To pay our bills at the right time, and to remind and collect payments from our customers. To keep our books updated daily. To create a weekly cash flow statement and a cash forecast. All this is needed to simply know if the business has enough cash to keep running. And keep in mind, this business does millions in sales a year, so it's not that a lack of sales is creating cash scarcity.

The promotional products business has high gross margins and a simple cash conversion cycle—customers typically pay within 15 days while suppliers give us 30-day terms. This timing advantage makes the CFO role much easier. Although I have an accountant who does the bookkeeping on a regular basis, I still only need to look at the books once a month. The gross margins of this business are high, so I know some fluctuations in sales won't result in the business losing money. And the cash timing is simple, so I don't have to keep a close eye on cash timing complexity. There's always predictable cash flow.

In this business, only about 2 hours a week is spent in the finance department, while in the building material business, it's about 40 hours.

For some entrepreneurs, choosing a business with a more challenging financial role will give them a chance to flex their strengths and gain an edge over the competition. For others, it would be a recipe for disaster—or at least a recipe for hating their day-to-day responsibilities. Meanwhile, choosing a business with an easier financial role may leave opportunities on the table for an entrepreneur adept with finances.

Self Assessment for Chief Financial Officer

Choose the Chief Financial Officer Role Type that best fits you:

Easier CFO Role Type

If during your search you gravitate toward high-margin, simple cash flow businesses:

- A person who just wants to know "are we making good money?" and can sleep well at that level

- Someone who prefers a simple monthly check of profit/loss and bank balance
- Often a visionary/big picture person who hates getting bogged down in details
- Natural delegator who is happy to let an accountant handle the numbers
- Well-suited for businesses like high-margin consulting or premium services

Key Strengths that Make Them Prefer This:

- Strong big-picture financial understanding
- Good at finding profitable opportunities
- Excellent at delegating financial tasks
- Quick decision-making abilities
- Natural growth mindset

Key Weaknesses that Make Them Prefer This:

- Gets anxious or bored when dealing with detailed numbers
- Tends to procrastinate on financial tasks
- May avoid looking at finances when things get tight
- Sometimes overly optimistic about financial situations
- These weaknesses are okay here because the high margins provide safety buffer

Average CFO Role Type

If during your search you're comfortable with moderate financial complexity:

- Comfortable doing weekly financial check-ins but not obsessed with numbers
- Can handle basic bookkeeping and understands financial statements
- Likes having systems but keeps them practical and simple
- Good at juggling finances with other business responsibilities
- Well-suited for businesses like retail stores or professional services

Key Strengths that Make Them Prefer This:

- Good balance of detail and overview
- Reliable at maintaining basic systems
- Strong practical financial sense
- Good at identifying potential issues
- Effective at routine financial management

Key Weaknesses that Make Them Prefer This:

- Gets overwhelmed by complex financial planning
- Sometimes struggles with cash flow projections
- Might miss optimization opportunities
- Can be indecisive about financial choices
- These weaknesses are manageable because the business model isn't too complex

Challenging CFO Role Type

If during your search you're drawn to complex financial models and tight-margin businesses:

- Actually enjoys diving into spreadsheets and financial details
- Natural tendency to track numbers and timing meticulously
- Feels uncomfortable not knowing exact financial status
- Often has background in accounting or finance
- Well-suited for businesses like construction or manufacturing with tight margins

Key Strengths that Make Them Prefer This:

- Excellent attention to financial detail
- Strong analytical abilities
- Superior cash flow management
- Good at optimizing tight margins
- Skilled at financial forecasting

Key Weaknesses that Make Them Prefer This:

- Can be overly cautious about spending money
- Might focus too much on pinching pennies
- Sometimes misses growth opportunities due to financial conservatism
- Can frustrate employees with tight financial controls
- These weaknesses actually help in managing tight-margin businesses

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Key Insight:

Your financial management preference should match the business model you choose. Someone who gets energized by complex financial analysis and cash flow optimization should choose businesses that benefit from those skills (competitive advantage). Someone who gets drained by detailed financial management should choose businesses with high margins and simple cash flow that don't require intensive financial oversight.

The key is being honest about your natural relationship with numbers and financial complexity. If you find yourself gravitating toward businesses with high margins and simple financial models during your search, that's probably telling you something important about your CFO preferences. If you're drawn to businesses that require sophisticated financial management, you might thrive in a challenging CFO role.

Remember, there's no "right" answer - the goal is to match your natural financial management style with a business model that leverages your strengths and doesn't expose your weaknesses