

How much does a finance director cost?

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And how to get a great return on your investment

Overview

This report is for owners of small and medium sized enterprises (SMEs) who want to grow and improve their profitability.

As your business evolves, the technical expertise and time required to successfully manage the finances will increase beyond your capacity. At some point you will need help and guidance – initially perhaps from an experienced part-time finance director (FD) – but how much will that cost?

Introduction

If you want your business to continue to grow profitably, sooner or later you will need to hire a finance director (FD). The cost of a full-time FD will be prohibitive for most businesses, but many SMEs work with one on a part-time basis.

Ideally, this individual will have at least ten years' experience as a finance director in a variety of commercial enterprises and be familiar with the issues affecting growing SMEs.

In this report I'll outline the major factors affecting cost and discuss other factors to help you find a solution to your company's needs. It is important to consider the benefits of this role alongside cost though as a good FD will help you to improve the profitability of your business and accelerate growth.



Current full-time salaries

At the top end of the scale a recent KMPG remuneration survey of FTSE 100 CFOs showed that their average salary was more than £500,000 p.a. and total remuneration packages were just over £2 million including bonuses.

In Robert Half's 2021 survey salaries range from £81,000 for an inexperienced finance director up to £180,000 in the top 10th percentile. After allowing for bonuses, benefits and other employer's costs such as national insurance, these equate to around £550 and £1,250 per working day as a total cost to the business.

At the bottom of the scale Sheridan Maine's salary guide 2020 lists its lowest daily rate at £400 for an interim finance director outside of London.



Factors affecting cost

Experience

The biggest influence on cost is probably experience. In order to do the job well your finance director is likely to have an impressive track record of growing and improving the profitability of a number of similar businesses. They are likely to have performed most of the basic accounting roles in a large finance department before taking on more senior roles. This experience will enable them to hit the ground running and provide your company with value from day one.

Commercial awareness

Good commercial awareness will also be important if an FD is going to be effective. Some accountants work in non-commercial enterprises in the public sector, charities, or other not-for-profit organisations. Others have spent their careers working in practice where they focus mainly on tax and audit work. While the basics of accountancy and financial management are similar across different types of organisation, a finance director with good commercial awareness gained in a successful SME is more likely to give you the guidance you need.

Sector knowledge

If your business operates in a niche sector you may get better value from someone who has previous experience in that niche. Such an individual will be more difficult to find though and will be able to command a higher rate. In my experience it is usually not necessary to find somebody with such specific knowledge. Indeed, a fresh pair of eyes is more likely to question the status quo and come up with more innovative ideas.

The best solution may be to find someone from the same broad sector, for example if you operate in one B2B service niche like a marketing agency, you might hire an FD with experience in another B2B service business such as a firm of architects. They are likely to deliver results more quickly than someone whose career has been spent in the manufacturing or retail sectors.

Qualifications

In the UK anyone can call themselves an accountant. Likewise, anyone can call themselves a finance director. Most FDs are also chartered accountants and have gone through an examination process which takes about three years and is equivalent to a master's degree. Common qualifications include ACA, CIMA and ACCA.

Whilst these qualifications will not guarantee success, they do mean that the holder has received significant training and passed the relevant exams at the end of the process. Ask what qualifications a candidate has and check that the individual is listed on the appropriate organisation's website.

Level of involvement

The amount of input required will depend upon a number of variables including the size of the business, its complexity, the finance resources already available and the required rate of growth. For example, the MD of a small start-up could benefit greatly from having a regular meeting to discuss high level strategic issues, review the management information for the previous period and consider the plan for the next twelve months. On the other hand, a complex established business with a hundred employees might require somebody two days a week or more.



Pricing structure

Traditional firms of accountants tend to price most services based on time. They use hourly rates and record the time spent on your work, often in intervals of six minutes. A medium sized firm might have hourly rates starting at £120 per hour for a junior up to around £400 per hour for an experienced partner.

Part-time, or virtual finance directors have historically charged based on a daily rate. Sometimes a retainer model is used, e.g. for four days per month.

Monthly packages are becoming more common, quoted as a flat fee and charged by standing order. Often there are three or more different levels of service.

Occasionally, equity in the business is also part of the deal. This is more common in start-ups where there are less tax issues when new shares are issued.



Cost Summary

Whilst contracting with an FD on a daily rate basis might not be the best solution, it is the easiest way to compare costs.

The rates in the Robert Half and Sheridan Maine surveys above are probably a good initial benchmark – between £400 and £1,250 per day. However, these costs are for full time employees who do not have to pay for their own equipment, travel or training. They also assume around 20 working days per month which will not be achievable across a portfolio of clients.

In practice, a typical role with an FD spending up to four days per month helping a client with £1m+ pa turnover might pay a daily rate of £800. A very low rate would be £500 per day, whilst you might have to pay £1,500+ for an experienced candidate.

Conclusion

A good finance director is an expensive professional and there is no point in engaging one unless the benefits exceed the costs. There are no regulations requiring you to have one. A £500 a day FD who doesn't pay their way is a waste of your time and money, whereas another charging £2,000 a day, but providing real value, can repay their cost many times over.

At the average daily rate of £800 and assuming an involvement of two days per month, an FD will cost you nearly £20,000 a year. If your turnover is £1,000,000 they would need to improve your profit margin by 2% to pay for themselves from day one. But the benefits will be greater in the long run as growth is accelerated and the business is designed to be more effective.

Rather than jumping straight into a regularly monthly commitment, why not test the waters with a few one-off sessions. Exit planning, strategy and pricing are three areas which could be explored in stand-alone sessions before you both decide whether to progress to a long-term relationship.



About me – **Andy Cristin**

Andy Cristin is the founder of Pareto Financial Direction Limited and designed The CASH Method™ to help business owners understand their numbers and build better businesses.

He is the author of the bestselling book *The Profit Mindset: Know your numbers, plan ahead, grow your business*, which was shortlisted for the Business Book Awards 2020 and co-authored *Pivot & Grow: The essential guide to business success*, which was also a bestseller

As co-founder and finance director, Andy started and exited two professional service businesses arranging trade sales with a listed French company. He now focusses on helping other business owners to improve their profitability and build more valuable businesses.





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