

Small Business Adds Up for Outsourcing Accounting Firms

FINANCE: Local Cos. On Big Growth Curve With Financial Services

■ By RAY HUARD

As recently as 10 years ago, few companies would give much thought to entrusting their financial services to an outsider.

Since then, the change has been dramatic, with several San Diego-based companies on the leading edge of providing everything from simple book-keeping services to sophisticated market forecasting. The outsourcing trend shows no signs of easing.

"It's just kind of the wave of the future," said **Gregory Flores**, president of **Flores Financial Services**. "More and more people are going to these types of services."



Gregory Flores

Companies that handle financial services for small- and mid-sized businesses grew substantially in 2014 and expect to continue expanding in 2015.



David Kramer

Typically, the outsourcing firms work with companies that have annual revenues of up to \$50 million, although some handle larger clients. "It's getting more prevalent," said **David Kramer** of **Outsource CFO Services**. "Part of it is there are more people out there who are supplying this need."

Hiring Time

Among San Diego firms that have seen rapid growth is **Signature Analytics**, which two years ago had two employees and now has more than 35, said Chairman **Ryan Peddycord**. "The company, in the last couple of years, has grown really, really fast, adding people almost every week," Peddycord said. "We hired 14 just in the last quarter and have 12 openings."

He said the company has added offices in Phoenix, Denver, Orange County, Los Angeles, Seattle, Dallas and Salt Lake City.

"A part of our challenge is bringing awareness to the community that this type of service actually exists," said Signature Analytics founder **Jason Kruger**.



Jason Kruger



Jessica McCarthy

People are accustomed to outsourcing payroll or even human resources, but outsourcing more extensive financial services is a newer concept, said **Jessica McCarthy**, TGG Accounting vice president of sales and marketing.

"For most of the companies that we're working with, they're growing so fast, they're realizing they have been doing it on their own and they didn't go to school to do accounting. Their passion is manufacturing. Accounting was something they just had to do."

Like Signature Analytics, TGG Accounting has experienced rapid growth, going from a staff of nine or 10 in 2007 to a staff of 55 this year, McCarthy said.

TGG opened an office in Colorado in September 2014 and is opening one in Orange County this year, McCarthy said.

"We believe this is a budding industry," said TGG founder **Matt Garrett**. "Our goal is to be nationwide."

The surge in outsourcing financial services is due in part to the recent recession, when companies were looking to trim spending and were reluctant to hire in-house, Kramer said.

"I don't think the market existed as greatly before this, certainly from the accounting end," he said.

With an uncertain economy, companies looked outside for part-time help at the same time outsourcing firms were just forming.

"They have made a market, they have made companies realize this (outsourcing) can be a helpful alternative," Kramer said.

Rapidly improving technology also was a factor.

"There's been an evolution of technology that's happened and we're able to take advantage of it," Peddycord said.

Cloud Convenience

With cloud computing, "We can be as accessible as if we were in the cubicle next to them," Peddycord said. "That wasn't possible five years ago."

The idea of outsourcing also has overcome a negative connotation it once had.

"It's not like 10 years ago, people said outsourcing, and thought everything was overseas," Peddycord said. "People are more comfortable, but we also feel the buyers are smarter."

Gaining Acceptance

McCarthy said she's also seen "a shift in perception of outsourcing."

"It seems to be more widely accepted," McCarthy said.

Initially, companies might be looking to outsource basic services like accounting, but the services outsourcing companies provide go far beyond that.

"We're the entire backroom for retail operations, mostly restaurants and grocery stores," Flores said. "We assume all the paying of their bills, producing their financial statements, reconciling their books, doing their payroll — just about everything you can think of in that accounting function."

Flores said his company also keeps track of trends in the industries they serve and has a full resources department available to its clients.

Peddycord said cash flow analysis is an important service offered by Signature Analytics and one that companies often overlook when they handle their financial functions internally.

That can be critical to small companies, Peddycord said. He said the main reason small businesses fail is because they don't properly track their cash flow so they run out of money when they need it most.

Some outsourcing firms expect to be replaced over time as their clients grow big enough to afford their internal financial operations, Kramer said.

"Ultimately, you teach the clients as much as you can until the client says, 'You know, I need a full-time person.' Then, you shake hands and you ride off into the sunset," Kramer said. "My metaphor for this is the cowboy who rides in at sunrise and says, 'Do you have any fences to mend,' then leaves at sundown when the fences are mended."

Other outsourcing firms say they grow with their clients.

"All of our customers are ongoing clients," Peddycord said.

Outsourcing companies like his give small businesses flexibility as well as the same resources bigger companies have, he said.

"We really focus on how you can get so much more value by having a full team rather than having one person who is a jack-of-all trades," Peddycord said.

Garrett said TGG functions pretty much as an internal accounting department for its clients.

"We just happen to not be on the payroll," Garrett said. "It gives them big business accounting at a cost that's affordable to them."

In describing the philosophy behind his company on its website, Garrett wrote "My vision is to revolutionize the manner in which financial services are delivered to small business owners."