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Guest Column

RoseRyan Roadmap Series Article 2 of 4: A ROADMAP FOR GROWTH: Setting up the Nuts and Bolts of your Business

BayBio, in its efforts to provide its members with the necessary insight to build a stable company, provides this four-part series to prepare companies to meet milestones and expectations.

By Carole-Lynn Glass

RoseRyan developed and utilizes a roadmap process to establish a client's timeline for funding, key milestones and exit strategies as they relate to building a solid accounting, finance, and administrative infrastructure. The roadmap, (see it online or request a full-size poster [here](#)), indicates each activity's timing as well as the level of system complexity. As discussed in the series' first article, having such a visual to guide your business is a powerful tool to keep track of where you are, where you want to go and how you're going to get there.

Typically in a pre-funded stage your product or service is still in development, you're self-funded or are living tightly on a friends and family round, you have few, if any, fulltime employees, and you are developing your market strategy.

Even at this early stage you need to get the basics in place. This is a great time to reach out to experts who can cost-effectively assist with these fundamentals. These kinds of service providers, of which my firm is one, can also offer scalable talent and technical knowledge that you can tap into strategically as your company grows. If you do opt to have an outside resource work with you in this way, be sure that you hire an advisor who can help at every stage on an as-needed basis.

Pre-Funding Stage Activities

- **General ledger and basic accounting structure** - setting up a simple accounting system with a scalable chart of accounts and department structure will be the basis for supporting subsequent systems and growth. Accrual based accounting with a monthly close and reporting and reconciliations processes won't take a lot of your time and will help keep the company on track.
- **Payroll and benefits** - outsourcing to a reputable provider ensures you are properly paying employees and ensuring payroll taxes are filed on time. Use a PEO (professional employer organization) to handle both payroll and benefits.
- **Human resources** - knowing what's required for employees and consultants is key to avoiding significant pitfalls down the road. Being consistent and staying compliant, including keeping records as required by the state, county and city you reside in, will pay off in saved time, money, and focus down the road.
- **Accounts payable** - ensuring expenses are recorded in the right period and vendors are paid in a timely manner will help establish credit history and manage your cash flow.
- **Stock administration** - it's never too early to keep complete records that will ensure you always know who owns your company and how much of it they own.

After your first round of angel or VC funding, you'll want to address some additional areas that will help sustain and manage your growing business. Accurate and timely business data and compliance will be vital to keeping your team focused and on track.

Initial Funding Stage Activities

- **Operational accounting and reporting, project accounting, cost allocations, and forecasting and budgeting** - setting up processes to estimate, record, track, and report on operational and project costs are vital to sustaining forward momentum, especially when cash reserves are tight and trade-offs need to be made.
- **Local tax and license compliance** - staying compliant can help avoid costly penalties and interest, as well as avoiding this common cause of delay in closing a funding round or M&A transaction.
- **Technical accounting** - properly recording equity or sales transactions as they occur will ensure you are not blindsided by contract terms that could negatively affect how your business is measured.

As your company continues to grow and you close subsequent financing rounds, receive grants or have emerging revenue streams, additional activities will be needed to control costs and protect cash reserves.

Secondary/Later Round Funding Stage Activities

- **Simplified policies and procedures** - putting policies in place as you grow will keep your team in sync and will help build a strong foundation and corporate culture. Typically, companies start with a signature authority and travel policy and then move on to cash management and investment policies.
- **Banking and cash management** - keeping tight rein on cash is a must. Cash flow forecasting is key to ongoing successful decision-making. A solid relationship with a bank that will work with you from operating accounts, to investment accounts, to asset financing, to loans, and beyond will help maintain forward momentum.
- **Investments** - working with your investment banker and board of directors to identify and follow a solid investment strategy will help ensure cash reserves are available when needed.

When the market (and your board) signals that you've got to be ready for a major event, you'll want to add a few more activities to the infrastructure outlined above. If the right earlier stage processes are in place and scalable, these new activities won't be deal-killers.

Activities at Twelve Months Prior to an Event

- **Audit preparation and support** - if you've kept records and reconciliations up to date, getting ready for an audit is

manageable. Continue to keep good records and build on your audit schedules to support future activities. You may want to consider bringing in a resource to assist with your initial audit.

- **Asset tracking and costing** -whether fixed assets or inventory, you'll want to keep detailed records. These can be manual (spreadsheets) or early-stage systems, but either way they should be set up in a way that allows the data to be easily converted to a more complex system at a later date.
- **Initial SOX planning and risk management** -taking stock of your company's areas of financial risk, the policies you've put in place to date, and what you'll need to address once you are public (or perhaps sold to a public company) will put you ahead of the competition.

As you get closer to your target date for an IPO or M&A transaction, the real fun begins. Take a hard look at your internal resources and be realistic about determining the type and amount of assistance you'll need to meet your deliverables for the event. Even if you have the in-house expertise to tackle everything, keep in mind that particular personnel may be needed elsewhere during the process, so be sure you aren't counting on someone to be in two places at the same time.

M&A or IPO/Secondary Offering Stage Activities

- **M&A due diligence, S-1 preparation and support, external reporting** -having the right expertise in place and a plan and timeline to follow will ensure you and your team stay on the right path. This is the time that the entire infrastructure you've built to date gets put to the test.
- **Formalized policies, SOX controls and procedures** -here again, building on what you've put in place to date will be so much more timely, efficient and cost-effective than trying to do it all at the last minute.

In Summary

By addressing the activities outlined above in stages as your company grows, you'll avoid making choices that don't fit your business, don't scale, or don't give you the data necessary to effectively manage your business. A misstep in any of these functional areas usually results in having to redo things at a later date. That means wasted time and resources.

It's not unusual for these kinds of "growing pain" errors pop up at the worst moments -- when timing is critical, such as needing to close a funding round in short-order or being ready for due diligence when an M&A opportunity presents itself.

We've now looked at what right-size planning means in our first article and have examined in this second piece some of the essential finance, accounting and administrative activities that need to be addressed at each stage of your company's growth. Next, in the remaining two articles in this series, we'll look at some critical choices in implementing the right talent and right systems at the right times.

Final Thoughts

Be sure to check out RoseRyan's roadmap (see it online or request a full-size poster [here](#)) to get the complete picture of what scalable finance architecture looks like. Then, try your hand at sketching out your company's roadmap so you have the guide you'll need to establish a solid infrastructure. Make sure it scales and remember that seemingly little investments along the way will mean big dividends when it really matters.

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