ROSERYAN
Finance dream team

Blueprint for growth:

building a smart finance infrastructure

April 2010

By RoseRyan

Why do I need a finance infrastructure—and how do I get one? **2**
Stage by stage: plotting what you need when **3**
Business information systems: supporting growth efficiently **5**
Key people: getting the right talent at the right time **8**
More information **9**

Finance dream team

Why do I need a finance infrastructure—and how do I get one?

The words "finance infrastructure" don't exactly roll off the tongue of the average hard-charging entrepreneur or growth company executive. But that infrastructure can be the key factor at critical moments in your business, determining whether you speed ahead to your destination or get bogged down in a finance-related rut.

We've seen companies miss out on high valuations, delay their IPO an entire year, waste precious cash on ill-timed initiatives, or suffer other serious setbacks due to disorder in their finance house.

It's not surprising. Juggling the array of finance needs—from hiring staff, tracking expenses, and paying bills to keeping tabs on noncash compensation, complying with regulations, tracking assets, and much more—is challenging for young companies, and many try to do it on the run. Too often that means missing the sweet spot for staffing, processes, and systems—spending too much or not enough, spending on the wrong things or at the wrong time, and neglecting some things altogether. The result: wasted cash, wasted time, unpleasant surprises, and resources and systems that aren't there when timing is critical.

A smart finance infrastructure saves you from that fate, and ensures that your company is always ready for its next stage. It connects business details to the big picture and serves as a guide as you build your company, enabling you to identify the people, processes, and systems you need for the full spectrum of finance activities—and put them in place at the right time. It's a blueprint for growth.

The RoseRyan approach

RoseRyan has developed an approach to creating a smart finance infrastructure for start-up and emerging growth companies that we call the Scalable Finance Architecture™. Based on our extensive experience working with life sciences, high-tech, and now cleantech companies, the Scalable Finance Architecture is a detailed plan that tells you every step to take and when to take it, and notes the expertise and tools you'll need at each juncture.

We create a customized architecture for each client. Then we translate it into a simple graphic format that can be revised as milestones change and shared with key stakeholders. (A generic example is on our website; see the link at the end of this guide.) A visual guide is a powerful tool to keep track of where you are, where you want to go, and how you're going to get there. Our blueprint indicates each activity's timing as well as the level of complexity, and can be expanded to become a checklist for significant events.

Creating the Scalable Finance Architecture—or any smart finance infrastructure—requires assessing your current situation and accounting for your funding targets, key milestones, and exit strategies. With that information in hand, you can identify activities by stage and determine the business systems and talent needed to support growth. This guide takes you on a high-level tour through the process.

Stage by stage: plotting what you need when

Identifying your company's objectives and milestones and determining what's needed to accomplish them is the first step in designing a finance infrastructure that can scale up with you and ensures that you have the right resources and systems in place when you need them.

Prefunding stage activities

Typically, in a prefunded 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) full-time employees, and you're developing your market strategy.

This is a great time to reach out to experts who can cost-effectively assist you with getting the fundamentals in place. Ideally, your providers will offer scalable talent and technical knowledge that you can tap into as your company grows, as well as help with setting up these basics:

General ledger and basic accounting structure A simple accounting system with a scalable chart of accounts and department structure provides the basis for subsequent systems and growth. Accrual-based accounting with a monthly close and reporting and reconciliation processes are essential to helping you keep your company on track.

Payroll and benefits Use a PEO (professional employer organization) to handle both payroll and benefits. Outsourcing these functions to a reputable provider ensures that you pay employees properly, file payroll taxes on time, offer competitive benefits, and manage other human resources functions appropriately.

Accounts payable Ensuring that expenses are recorded in the right period and vendors are paid in a timely manner will help you establish a credit history and manage cash flow.

Stock administration Keeping complete stock records from the get-go ensures that you'll always know who owns shares in your company and how much of it they own.

Human resources This area overlaps finance. Staying compliant with regulations on consultants and employees—including keeping records as required by the state, county, and city you operate in—helps you avoid significant pitfalls down the road and will pay off in saved time, money, and focus.

Initial funding stage activities

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

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 is 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 means you avoid costly penalties and interest, as well as a common cause of delay in closing a funding round or M&A transaction.

Technical accounting Properly recording equity or sales transactions as they occur ensures that you don't get blindsided by contract terms that could negatively affect how your business is measured.

Later funding stage activities

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

Financial policies and procedures Putting policies in place as you grow will keep your team in sync and 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—and cash-flow forecasting is key to successful decision making. A solid relationship with a bank that will work with you on operating accounts, investment accounts, asset financing, loans, and beyond will help you maintain growth.

Investments Working with your banker and board of directors to identify and follow a solid investment strategy will help you ensure that cash reserves are available when needed.

Pre-event activities

When the market (and your board) signals that you need to get ready for a major event, you'll want to add a few more activities—ideally a year before the event is to occur. If the right earlier stage processes are in place and scalable, these new activities should go smoothly and you won't find any deal killers.

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 an expert to assist with your initial audit.

Asset tracking and costing Whether you have fixed assets or inventory, you need to keep detailed records. You can do this manually (using spreadsheets) or with early stage business information systems; either way, the records should be set up in a way that allows you to easily convert the data 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 go public (or sell to a public company) will put you ahead of the competition.

M&A or IPO/secondary offering stage activities

The real fun begins as you get closer to your target date for an IPO or M&A transaction. This is the time when the infrastructure you've built so far gets put to the test. Take a hard look at your internal resources and determine 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 you can't count on someone to be in two places at once.

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 keep you on track.

Formalized policies, SOX controls, and procedures Continually building on what you've put in place will be much more timely, efficient, and cost-effective than trying to do it all at the last minute.

Business information systems: supporting growth efficiently

Putting the right business information systems in place as you grow is key to supporting a finance infrastructure that lets you avoid expensive messes and keep a handle on costs, while ensuring that you're prepared for opportunities of all kinds: funding, M&A deals, IPOs, and so on.

Your accounting system is core to your business's financial health, and is most likely the first information system you'll put in place. As you grow, you'll eventually need forecasting, human resources, and stock administration systems as well.

Your initial system

Conserve your precious early stage cash by tackling must-do finance tasks with the right size tools and systems. A simple accounting system with a scalable chart of accounts and department structures will support subsequent systems and growth. You'll need to stop stuffing a shoebox with receipts or running expenses out of the founder's checkbook (we've seen start-ups do this—you know who you are) and get some software.

Accounting programs are designed to serve the needs of a particular business size: small, medium, or large. When you shop for software, make sure you're comparing packages geared toward your needs. For an early stage company, ease of use, proper tracking of expenses, and price are typically the most important considerations. Most start-up companies implement a small-business accounting program such as QuickBooks or Peachtree. There are nearly a hundred of these systems on the market—to help you narrow the field, ask a trusted advisor to recommend two or three that would suit you best.

These systems are relatively inexpensive and easy to set up and maintain, and in many cases you can extend them with "bolt-on" software developed by third parties to serve particular needs. For example, a number of RoseRyan clients in the technology and life sciences sectors started with QuickBooks for basic accounting functions, then as they grew added a time-tracking module to track costs by project and later an inventory module.

When it's time to move up

A mid- or large-tier system can bring greater efficiencies; better productivity, controls, and management reporting; more real-time data; and the ability to handle a significantly higher number of transactions. It will also cost far more to implement—in terms of dollars and time—than your small-scale system and will be much more costly to maintain. Use your blueprint to project inflection points in your lifecycle when you should consider a new system. That way, you can prepare for the switchover.

Beware of upgrading too soon—this is a common and expensive mistake. We've seen companies implement large ERP systems (Oracle, SAP) on the basis of unproven sales forecasts. Not only were the hardware, software, and implementation costs high (and the companies wished they had that cash back when sales fell short), but system maintenance was beyond the capabilities of one or two accounting people.

Signs that it's time to move up include any of these situations:

- Increasingly complex revenue transactions. QuickBooks can't handle revenue recognition, for example, so companies often end up using Excel for that. If you have multiple-element agreements, you have a lot more rev rec complexity, and if you have a lot of transactions, Excel's not going to cut it.
- A complex manufacturing process. If you manufacture in-house, have many stages in your product manufacturing, have a large bill of materials, or track manufacturing progress, you need something more than a bolt-on for QuickBooks.
- A large number of transactions. Sheer volume can overwhelm your system.
- A need to report real-time data.
- An IPO on the near horizon.
- A need to integrate systems from outside the accounting function, such as a CRM system.
- A need to prepare consolidations (domestic or foreign subsidiaries).
- Too many bolt-on modules. Maintaining a system with four or more bolt-ons gets cumbersome; you're better off upgrading to one system that does everything.

Tips for purchasing and implementing a new system

Determine your priorities. No system solves all problems or provides all the information your company may want. Perform a needs analysis that includes all affected departments—not just the finance team. An ERP system, for example, has a huge impact on operations, and a CRM system has to include sales and marketing. But don't plan for every conceivable scenario—you want a system that handles the norms, not the exceptions. If you try to cover everything, you'll end up with a bloated, inefficient system.

Consider performance and features as well as price. Placing undue emphasis on price can lead to a purchase that ultimately fails to deliver the benefits you expect.

Be sure you know the complete cost. There may be a number of hidden costs in a software system. Make sure to ask about fees for consulting and installation, upgrades, annual maintenance, customization, and training. Any of these items can significantly affect the total price, as can fees for administrator, user, and server licenses.

Look outside the box. Consider using a hosted online service (also known as cloud computing or software-as-a-service) when purchasing. A hot tech trend, cloud computing provides applications and services over the Internet rather than storing them on a server. Just be sure to evaluate the total price and performance of this kind of solution as you would any other system.

Go vanilla. A highly customized software package can take a lot of time and money to implement and is difficult to maintain. Control the scope creep.

Plan your implementation cycle. Set a reasonable "go live" date, and make sure you have the right resources, whether you bring in a consultant to do the implementation or someone to backfill the day-to-day job while your employees implement.

Other must-have business information systems

Most companies start with just an accounting system—but eventually you'll need additional specialized software to support finance functions and related business needs. Key systems include:

Financial forecasting Almost every company starts out with Excel and develops a budget and forecasting tool to meet their needs. As your company grows in people and complexity, you'll need a more sophisticated system such as Budget Maestro, Adaptive Planning, or Cognos.

Human Resource Information System (HRIS) An effective HRIS lets a company track and analyze just about anything related to employees, former employees, and applicants. While many companies start out with Excel, they quickly move to a more robust system, often supported through an outside payroll service provider.

Stock administration Knowing who owns your company and having an up-to-date cap table is important for a CEO and CFO. Consider carefully whether this information should be maintained internally or externally. In the early stages, many companies have their legal firm maintain equity records. But eventually, as equity plans become more complicated and accounting for them more complex, it makes sense to bring stock administration in-house. To ensure that this happens smoothly and correctly, you may want to tap into experts who regularly handle stock administration.

Key people: getting the right talent at the right time

The right talent at the right time is critical to any company's success. Start-ups and emerging growth companies, however, typically don't have the resources to hire the ideal team of full-time employees. This is where savvy use of service providers and consultants comes in. Used at the right time and for the right tasks, these resources can get you real expertise cost-effectively.

The general rule is: focus on your core business. Don't try to become an expert in every area, or hire full-time employees for one area and assume they can successfully "fill in" in other areas. We've seen that approach leave many a Silicon Valley start-up with gaping holes in critical finance and accounting areas. Usually, these holes become apparent at the first mandatory audit or, even worse, during end-game moments like M&A transactions, when it's costly (and possibly deal killing) to have to go back and fix everything. Instead, bring in resources as needed for specific roles or tasks.

What areas do you need to cover?

An early stage company should consider getting help in these key areas:

Legal One firm may be able to handle both corporate and intellectual property work. Or you may want to work with two or more firms that have specific expertise. Legal experts should assist with setting up your corporate structure, protecting your IP (more than just patents—this includes trademarks, internally developed software, and so on), developing agreements, and administering equity documents.

Banking Choose a bank that meets your company's business needs. Many founders make the mistake of opening their corporate account at the bank where they have their personal accounts. Choose a business bank that can meet your future business needs: a line of credit, international capabilities, and so on.

Accounting and finance Start-up companies often do not need full-time accounting and finance staff. You will need to cover a full range of roles, however, from CFO to controller to accountant, and expecting one full-time person to do it all is unrealistic (and can be a recipe for disaster). Outsourcing your accounting team is an excellent way to get the talent you need at an affordable cost. Finance and accounting consultants can ensure that you have complete financial projections, correctly prepared monthly financial statements, appropriate finance and accounting controls, proper insurance coverage, and so on.

Human resources HR is another area where you may not need full-time staff, but you do need expertise. Outsourcing this function can get you the services of an HR generalist, a recruiter, and a benefits expert in a cost-effective way.

Tips for maximizing your outsourced dollars

When hiring service providers and consultants, look for the following qualities to be sure you get the most for your money:

Scalability Look for a business partner that can provide talent throughout your company's stages.

Depth Evaluate the depth of the "bench" you're bringing in, including senior-level talent. You're not hiring bodies to plug holes in your staff but instead forging a strategic relationship that deepens over time. Can you imagine trusting these people and turning to them again and again to help you solve new problems and ongoing needs?

The key person Make sure they have that special niche player you need initially. In finance and accounting, for example, this could be someone who can act like a "heavy controller," sliding up and down the ladder of responsibilities and roles. And make sure you can get that person as often as you need them and no more—you could need them just one day a week to start, then more as you grow.

Specialized skills There are some skills you won't need in a full-time person for a long time—or ever. But when the job calls for a specialist, you want to be sure you'll have one on hand. In the finance arena, technical accounting expertise is hard to find and expensive, but usually needed only in small doses.

A history of smooth transitions Ultimately, you will want to hire full-time people to fill roles you outsource in early stages or during tough economic times. Make sure the firm you hire has an excellent record of seamlessly transitioning clients from outsourced positions to permanent hires. Ask about this when you call references.

More information

Get a generic version of our Scalable Finance Architecture model:
www.roseryan.com/pdfs/ScalableFinanceArch.pdf

Get the bigger, brighter 14x22 poster version by e-mailing Michelle Hickam (mhickam@roseryan.com) with your name, position, company, and mailing address.

Find out about getting your own Scalable Finance Architecture by e-mailing or calling Maureen Ryan (mryan@roseryan.com, 510.456.3056 x122).