# CFO SURVEY

# DRIVING CHANGE THROUGH FINANCE & ACCOUNTING: A survey of 100 PE-backed CFO's

Spring 2022

A survey conducted by Consero, in conjunction with research partner, Wakefield Research.

# Executive Summary

After closing an investment from institutional investors in the private equity and venture capital industry, a company's need for an optimized and rigorous finance and accounting function becomes critical.

The functional and technical skillset of the team, and the team's ability to deliver timely and accurate financials are table stakes. Post investment, institutional investors immediately expect the Finance & Accounting organization to serve as a value driver for the business with clean data and KPIs and the ability to provide strategic direction to the CEO, investors, and the board.

To learn about what CFOs of institutionally-backed companies are grappling with, Consero conducted a survey of 100 CFOs in tech and business services with annual revenue between $10M and $200M. The goal was to learn from this seasoned panel what the optimal state, size, and organizational structure for a F&A function is as a business scales. In addition, we explored where CFOs should consider investing at different inflection points as a business scales, as well as hidden costs and spending time on value-driving activities.

Lastly, we learned about the expectations of CFOs in working with institutional investors and the board of directors and how partners with ready-made solutions can offer support at the most critical time in a company's growth.

# What CFOs Are Saying

## Survey Feedback

### The Ideal State

"The CFO will be a key conduit to understanding whether their investment is sound and whether the organization is growing or not."

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### Focus on Strategic Planning

"You have to be a game changer, not just money maker."

"[on how a CFO best contributes to company growth] Perform effective risk management and plan the organization's financial strategy."

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### Benchmarking—What should the F&A function look like?

"The CFO has to be very comfortable with technology as it will be necessary in day-to-day ops."

"A good CFO helps identify and mitigate exposure by establishing and enforcing appropriate financial and operational controls."

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### The Hidden Costs and Risks Around the Corner

"The CFO would have to focus more on the long-term plans and not on short term gains."

"PE companies tend to require enterprises to operate at a faster pace than that to which they might previously have been accustomed, and that's something a CFO has to deal with."

# SECTION ONE
## The Ideal State

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> “You only have to do a few things right in your life so long as you don’t do too many things wrong.”
>
> **Warren Buffett**

For CFOs, the expectations and risks are greater, the pace is faster, and the pressure to demonstrate the ability to rapidly scale and grow a business is greater at a company fueled with institutional dollars. Investors expect returns and have a finite timeline.

The F&A team’s responsibility is to chart the company’s financial path while simultaneously providing rigor and clarity to their executive team and investors with a financial function to position the company for a successful audit and third-party due diligence.

With a short hold period, there is little time or patience to build an optimized F&A function from scratch or to curate a collection of talent.

In the survey, these strategic CFOs with extensive experience working with investors signaled the most important function for optimal performance the skillset of the team (20%) and the ability to deliver timely and accurate financials (20%); this is closely followed by the ability to deliver KPIs (17%). PE-backed companies need to know if they are going in the right direction and be able to quickly change course if not.

## Most Important F&A Functions for Optimal Growth

PE-backed companies need to know if they’re going in the right direction and be able to quickly change course if not.

### Top Ranked Responses

| | |
|---|---|
| Functional skillsets from finance team | 20% |
| Ability to delivery timely & accurate financials | 20% |
| Ability to deliver KPIs | 17% |
| Using scalable infrastructure and software | 15% |
| Efficient processes and workflows | 15% |
| Experienced leadership | 13% |

As noted by our panel, tied for the top-most important function is the skillset of the team (20%). Without the luxury of a long timeline, CFOs will be hard-pressed to have put a fully functioning team in place in order to fulfill the expectations of delivering timely financials from day one.

> 88% of CFOs underestimated the time to migrate F&A processes to an enterprise-grade ERP and necessary software stack

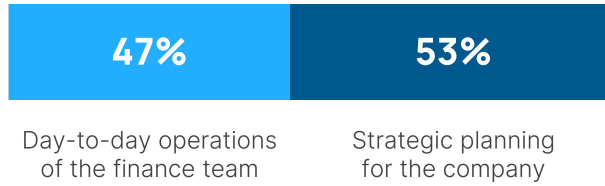
“Implement a strategy that will point out the biggest expenses and cut all unnecessary ones.”

- Survey Feedback

## Focus on Strategic Planning

CFOs report that the emphasis for F&A hires is on the team's functional skillsets, while the emphasis on the CFO role is on strategic planning. Accordingly, CFOs say that over half of the time (53%), on average, should be spent on strategic planning rather than day-to-day operations (47%).

### Ideal Division of CFOs Time




Thus, the core value a CFO brings to the table as a partner to the CEO, investors and board directors is establishing a finance function that is foundationally and technically sound along with delivering one single source of truth in the financials. Once an optimized finance function is established, PE investors can rely upon the fact that their CFO will now be enabled to spend time helping lead the company's strategic direction — which is what a PE investor needs most from their CFOs. The Strategic CFO serves as a right hand to the CEO and investors to execute on the company's growth plan, whether M&A, approaching the capital markets, or focusing on organic growth.

The consequences for getting it wrong can be devastating for the company, the CFO's career, and can hinder the investors' ability to exit the asset down the road. A poorly run F&A organization can hamper a company's ability to make strategic investments (44%) or raise needed capital or debt (38%). It can even reduce the company's valuation (37%). Internally, it can mean delays in making or receiving payments (44%), inaccurate financial reports (36%), and a damaged reputation with the board (35%).

These consequences make it clear that the bar is very high. The CFO role demands having the right skillset across the F&A team to deliver timely financials and KPIs, and putting the right infrastructure in place from the onset allows the CFO to focus on bigger picture strategic planning. This is the ideal state – but rather than being some lofty goal, this is what investors and the board demand.

## Consequences of a poorly run finance and accounting function and negative impacts on the business


"In order to grow, react in time, **increase the speed** of processes & introduce innovations in business."
- Survey Feedback

## SECTION TWO

## Benchmarking — What Should the F&A Team Look Like?

> "If investors can not keep track of where your money is going, they will rightly believe that you cannot keep track of where your money is going."
>
> **Kevin O'Leary**

One of the first things investors evaluate as a component part of their due diligence process is the cost and effectiveness of a company's back office. CFOs that have run the investor gantlet before warn of relentless pressure to optimize costs, freeing up dollars that can be allocated to top line revenue generating efforts across sales and marketing – all the while still increasing the quality of the finance & accounting function's output.

The first area investors look to rationalize costs is overhead and fixed costs, which is why for a CFO getting their own house in order is of the utmost priority. Most CFOs say spend within the F&A should be less than 10% of a company's revenue. In terms of hard numbers, three-quarters (75%) advise having fewer than 10 FTEs within F&A at a company with annual revenue of $10M.

### The Ideal F&A Function For A $10M Revenue Company

**Even these ideals may be too high to meet the efficiency investors demand**

CFOs say **10%** of **annual revenue** should go to F&A costs.

Surveyed CFOs say less than **10 staff members** should make up the F&A team, while data from Robert Half's recent Benchmarking report indicates 3 is sufficient.

Even that finding belies the ideal efficiency that investors demand, given that recent data from Robert Half's "Benchmarking Accounting & Finance Functions" report indicates businesses with less than $25M in revenue need only 3 F&A employees. The need to wring the most functionality out of fewer employees necessitates an alternative approach. Enter Finance-as-a-Service (FaaS), a solution that helps to reduce the cost, increase efficiency, and mitigate risk to business continuity of the finance function.

FaaS also prepares businesses to scale, as two-thirds (68%) of CFOs say the cost of an F&A function as a percentage of revenue should be lower or constant for companies between $10M and at $200M. In other words, as the company's revenue grows, half of CFOs (50%) say the percentage of revenue ration should decrease – another 17% say it should stay the same. This should leave CFOs strategizing as to whether their F&A operation is optimized to account for an increasingly smaller percentage as the company's revenue grows – while, of course, increasing efficiency and functionality to meet investors' rigorous demands.

Ultimately, an optimized F&A function doesn't solely mean efficient performance in delivering the financials, but also optimized to provide the critical underpinning for the business to scale appropriately through M&A, an IPO or acquisition by a strategic acquirer – that is, to avoid becoming a drag on the bottom line.

> CFOs say the process for building an F&A team takes 1/3 of the standard workweek

## SECTION THREE
## The Hidden Costs and Risks Around the Corner

"Many people don't focus enough on execution. If you make a commitment to get something done, you need to follow through on that commitment."

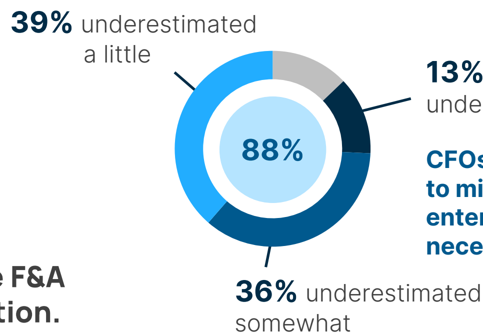
**Kenneth Chenault**

PE-backed CFOs should watch out for hidden costs – not just in terms of expenses, but also in terms of time. It is often taken for granted that a company on a growth trajectory will either be operating on an enterprise-grade solution or have the funds to upgrade as they grow beyond the small or mid-sized finance & accounting software that they had previously been accustomed to relying on.

However, this process is costly and takes time and effort – and 88% of CFOs say they ultimately underestimated the time it would take for a full financial transformation that includes fully implementing an enterprise-grade ER and the necessary software stack. This includes nearly half (49%) who underestimated the overall effort by more than a little, and 13% who significantly underestimated the time.

### Perceptions vs. Reality

**Nearly 9 in 10 companies underestimated the time to migrate F&A processes to enterprise-grade solution.**



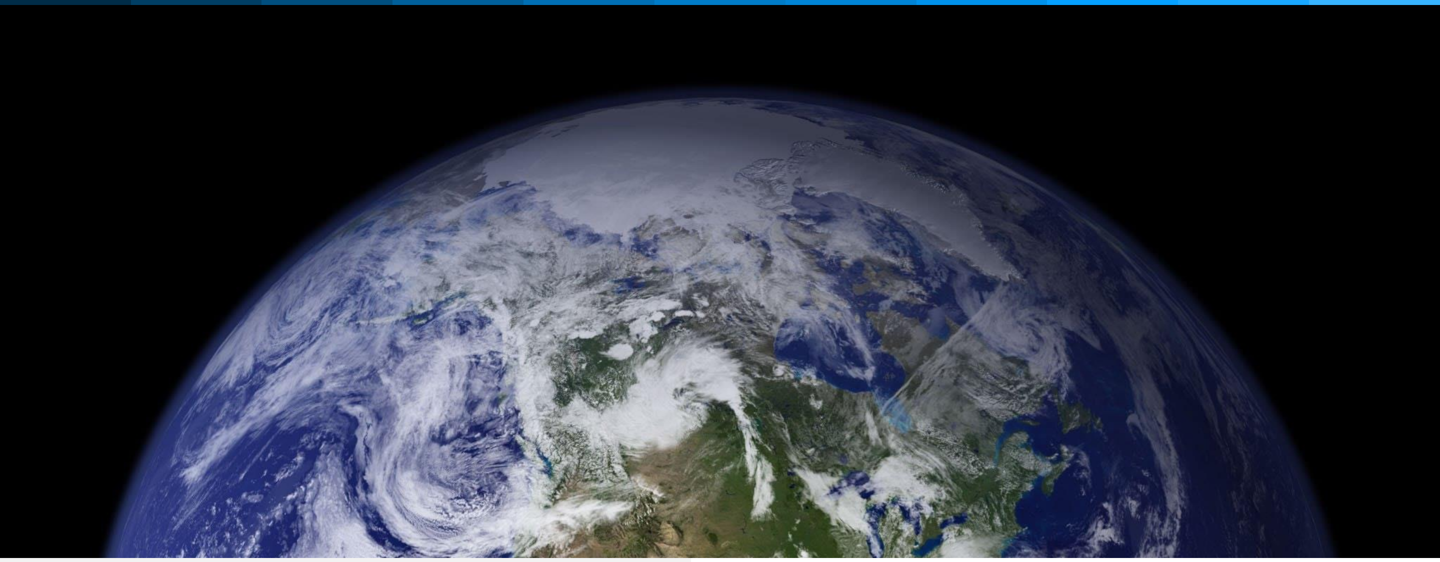

**CFOs underestimated the time to migrate F&A processes to an enterprise-grade ERP and necessary software stack**

The true impact of this isn't just late nights and a timeline far longer than many CFOs anticipate at the onset. The team's time and effort spent focusing on basic components like documenting workflows, procedures and processes is time not spent on the most important strategic growth initiatives for the company. This represents a worst-of-both-worlds scenario: incurring the risks of a suboptimal F&A organization discussed above, while also spending an unrecoverable currency of a strategic CFO: time.

Beyond a system transformation, CFOs often spend an inordinate amount of time to build a team from scratch, which brings its own set of risks and is highly impractical amid a financial transformation. CFOs estimate they spend up to 13 hours a week on recruiting, hiring, and assessing talent. That's a third of the standard workweek, or 6 days a month. Can your company afford to lose a full week every month spent on basic tactical items vs. strategic planning and growth initiatives?

The consequences of lost time can be even more material in the context of an institutionally backed company. Simply put, time kills deals as it allows circumstances to change. Risk associated with attrition can set in and a potential transaction can materialize, leaving the company in dire straits for a due diligence process. A prolonged due diligence period on M&A or the sale of an asset due to delays, inaccuracy in reporting, or simply a lack of trust in a company's data can mean walking away from business opportunities (or having those opportunities walk away from you).

CFOs agree that most of their time should be spent on strategic planning; however, 1/3 of their week is spent on building their F&A team



# CFO Survey Highlights

CFOs of investor-backed businesses can adapt their finance & accounting function so that their time does not get diverted from driving operational gains and steering growth strategies.

- CFOs agree that most of their time should be spent on strategic planning for the company
- CFOs say the process for building an F&A team takes 1/3 of the standard workweek
- 88% of CFOs report underestimating the time it takes to migrate their F&A processes to an enterprise-grade solutions
- 2/3 of CFOs say the cost of an F&A function as a percentage of revenue should be lower as the company's revenue grows

# Conclusion

Receiving an infusion of capital from private equity backing puts the F&A team squarely in the spotlight as it is tasked with meeting elevated expectations at an accelerated pace. It is the CFO who must expect to deliver timely and accurate financials and produce clear KPIs while developing the all-important forward-looking growth plan. This places a far greater emphasis on the role of the CFO as a strategic partner to the CEO and board vs. being dragged into day-to-day tactical accounting activities.

The vast majority of CFOs underestimate the time required for a financial transformation - whether it requires graduating to an enterprise-level solution or cleaning up the hornet's nest within F&A often left in the wake of M&A or what it will take to build from scratch if they find themselves in a carve out scenario. At the same time, new CFOS are devoting an inordinate amount of time to talent acquisition and development, time they can ill afford to spend with the finite hold periods typical of institutional investors.

Fortunately, solutions exist to empower CFOs during this high-wire act. CFOs facing this pressure should consider embracing a ready-made solution that sets up the F&A team for success as well as positions the CFOs to be the strategic leader that investors expect them to be.


## About Wakefield Research

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### Methodological Notes

The Consero Survey was conducted by Wakefield Research among to the 100 US CFOs at Equity-Backed Companies working in software, technology, or business services with annual revenue between $10M and $200M, between November 4th and November 18th, 2021, using an email invitation and an online survey.

Results of any sample are subject to sampling variation. The magnitude of the variation is measurable and is affected by the number of interviews and the level of the percentages expressing the results. For the interviews conducted in this particular study, the chances are 95 in 100 that a survey result does not vary, plus or minus, by more than 9.8 percentage points from the result that would be obtained if interviews had been conducted with all persons in the universe represented by the sample.

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## About Consero

Consero was founded in early 2006 with the goal of providing small and mid-market companies with a superior alternative to building and maintaining an in-house finance function.

Consero is the pioneer of the Finance as a Service (FaaS) category. They are disrupting the way PE and VC-backed companies and Investment Management firms set up and scale their finance department. Consero's FaaS model combines cutting edge technology, processes, and people in a fully-managed solution to deliver precise financial visibility and improved operational scalability.

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