Creating Value out of the Finance & Accounting Function:

5 Common Mistakes PE-Backed Companies Make in Finance and Accounting

...and How to Fix Them

CONSERO

Financial clarity and efficiency made easy

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5 Common Mistakes PE-Backed Companies Make…and How to Fix Them

Private Equity firms need the Finance & Accounting team to deliver clear insights quickly. But too often, they are re-creating the wheel—implementing software, hiring professionals and building reports. Time is wasted and opportunities are missed.

To be successful, the finance & accounting function of Private Equity portfolio companies should create value. A strategic CFO should provide the “Voice of Finance” that permeates throughout the business. Key functions like processing transactions, closing the books and producing internal/external reporting should all be efficient. And, those efficiencies should drive the relative cost of the finance & accounting function down as the organization scales up.

In this eBook, we’ll explain the common mistakes to help you identify potential failure points. We’ll provide insights into how they can be resolved so you can begin getting more value out of the finance function. And we’ll show you how the finance function can provide the foundation to build for the future and guide the business strategically.

Five Common Mistakes

- **Misaligned skillsets in finance & accounting**
- **Re-creating the finance & accounting wheel**
- **Disconnected finance & accounting systems**
- **Processes that won’t scale**
- **Buried information**

The Fix:

- **Driving efficiencies through automation and AI with Finance as a Service**

1. Misaligned skillsets in finance & accounting

In a high-growth environment, a strategic CFO is critical to provide the "Voice of Finance" that will permeate throughout the business. Too often, PE-backed firms will hire a CFO tasked to build a finance and accounting team and establish fundamental financial infrastructure. This approach doesn't place high value on the strategic skills that will ensure the key levers that drive the business are understood and communicated to the decision makers in the organization.

Skillsets of a CFO

Strategic

- Right hand to the CEO
- Understand business model and key drivers
- Provide growth and funding strategy
- Execute mergers and acquisitions strategy

Tactical Operations

- Optimize the technology platform
- Able to undergo and pass audit
- Deliver management reporting and KPIs
- Prepare real-time forecasts and modeling
- Quickly integrate future acquisitions

Maintainers versus builders

In most cases, CFO's fall into two categories. There are the "maintainers" who excel at the repeatable, functional aspects of financial and accounting management. They are well organized but don't thrive in environments with ambiguity and high levels of change. Typically, maintainers have come up through these ranks as staff accountants and controllers.

On the other hand, there are "builders" who are more strategic and thrive on bringing process to a chaotic situation. They like to clean things up. Often, builder CFOs have come from a background of system implementer or business process design.

A common failure point for companies is to hire a person with an operational background, a maintainer-type CFO. That CFO is expected to build the F&A structure and then to take a strategic role in guiding the company forward. When a CFO does not have a strategic skillset, he/she is unable to parse and present the financial information leaders need to make sense of current challenges and identify opportunities ahead.

A builder CFO will be able to envision and design the processes for the finance function. They will thrive on that challenge and accomplishment. A strategic builder will be the mouthpiece of focused investment, asking the right questions and providing the right insights so that everyone understands when to say no and how to say yes. A builder CFO will help the company turn down many activities so that they can get laser focused on the most important initiatives.

2. Re-creating the finance & accounting wheel

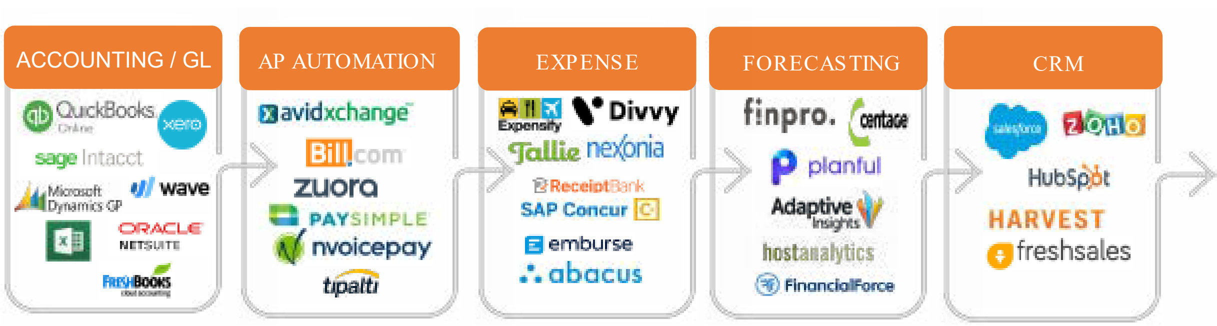
Once an investment is made, time is of the essence for PE-backed firms. Ideally, the 100-day plan includes optimizing the finance and accounting function within three to six months. This may include upgrading the finance & accounting software systems and optimizing processes. It is very common for middle-market companies to realize that their systems are holding them back. This becomes immediately apparent if the CFO is scrambling to articulate the key performance indicators of their business. If they are on QuickBooks, for example, they may be experiencing three common roadblocks faced by high-growth businesses:

- A lack of automation that creates bottlenecks within accounting and finance departments
- User and data limits that put a hard cap on growth
- The absence of reporting functions that are essential for fundraising

But too many firms waste time recreating the wheel. When tasked with hiring controllers and accountants as well as implementing the financial management systems, CFOs are spending their time building instead of optimizing.

The abundant technology landscape

There are so many options when it comes to finance & accounting software. The CFO must determine the answers to questions like: *Which General Ledger is best for a software business vs. a services business? Do all General Ledger's integrate with the businesses CRM? What features of a Expense Management tool are most important for my business?*



Navigating today's tech landscape with so many options can be overwhelming.

"More than 60% of ERP implementations fail. Private equity-backed CFOs can't afford the astonishingly high rate of failure. Those CFOs have a special use case for ERP systems: accelerating the close process, reducing reporting time, and providing sponsors with the right metrics and analytics in the requested timeframe and cadence."

Source: https://www.cfo.com/applications/2019/02/erp-enterprise-reporting-partner-or-problem/

Multiple points of failure

There are so many points of failure when you choose to build versus buy. Creating an entire F&A foundation introduces several potential points of failure within the business, including:

- **Hiring:** Finding the right people and training them quickly.
- **Researching, selecting and implementing software:** Finding the best software for the business requirements of the organization is just the beginning. Implementation, training and integration of disparate systems all takes time.
- **Reporting**: Verification that all transactions are being processed properly and management is receiving timely reporting. Assurance that compliance needs for tax and audit are met.

All of these requirements are critical to the foundation of F&A. Too often, they end up dragging the CFO into tactical operational work.

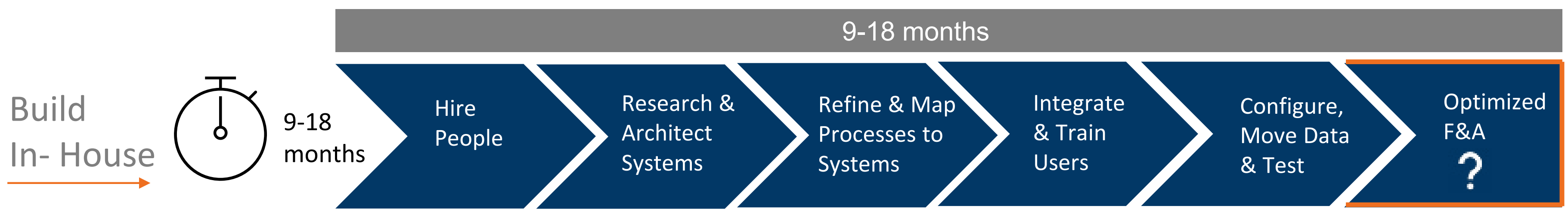
Time is ticking

The process of building a finance and accounting function generally takes 9-18 months. But at the end of that time, will the department truly be optimized? In a fully optimized finance & accounting function, the team should be able to:

- Close the books in 5-10 business days and be prepared for an audit
- Scale with digitized, automated systems and processes
- Deliver standardized KPIs and forward-looking metrics

What's the backup plan?

When these pieces don't fall into place correctly or quickly, the PE-backed firm must determine what to do next. First figuring out the root cause—is it the CFO? Is it the software? Is it something else? Then figuring out how to fix the problem, all of which can set the organization back months or more.



3. Disconnected finance & accounting systems

While financial management software has matured over the last decade, the proliferation of specialized point solutions create silos of data. The silos of data from functional software, like payroll, expense, billing and accounts payable solutions are then aggregated and imported into the general ledger, which loses transactional detail.

That detail is needed to uncover relationships and patterns through data analytics. To be strategic, CFOs need meaningful analysis applied to data at every level to understand the "why" behind the numbers.

Spreadsheets put the business at risk

The end result of disconnected software systems is that detailed data is spread across departments and functions. Accountants then have to spend their time creating spreadsheets to service two very different functions. Spreadsheets that combine information are needed to create comprehensive reports for management. And spreadsheets that pull out detailed data to support financial analysis. In both scenarios, there is too much room for errors and omissions.

As the organization grows, with multiple business units, multi-entity reporting becomes critical to decision making. Managers and leaders need to be able to see the interactions and dependencies across all parts of the business—with both individual and combined perspectives. A company's dependence on spreadsheets, makes more multi-entity reporting even more difficult.

Barriers to workflows

Without centralized connected systems, the organization can't standardize or take advantage of the benefits of process automation and workflows. The real value of software today should come through the reduction of manual processes, like creating spreadsheets, performing financial analysis and getting approvals.

4. Processes that won't scale

Without centralized data, businesses lose the opportunity to standardize and automate processes. Employees spend more time on administrative tasks and can't contribute their maximum value to grow the organization. While the PE Operating Partner is looking for ways to drive value in the business, he or she may come to the conclusion that the portfolio's executive team does not have the people, processes, and tools it needs to meet the goals established by the PE firm's investment thesis. This scenario will inhibit growth.

"CFOs in 2020 will focus on finance analytics, finance organization strategy and structure, and finance technology optimization."

Source: www.gartner.com/smarterwithgartner/gartner-top-priorities-for-finance-leaders-in-2020/

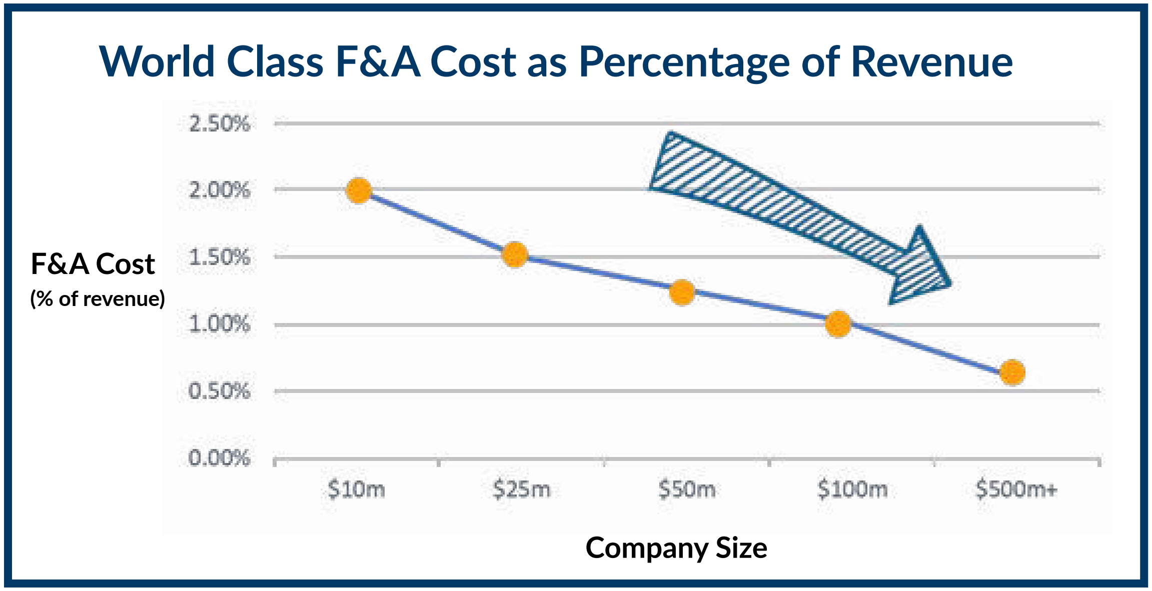
Inefficient business processes

As an organization gets set to grow, the manual business processes that have become ingrained in the business must be replaced. Without connected systems or the leadership of a "builder" CFO, that can't happen.

An efficient organization is built on standardized business practices and well defined workflows that drive processes across departments and functions. As processes are defined, automation should be implemented to reduce costs and errors wherever possible. Once standardized, the processes can be driven by software and augmented with Artificial Intelligence (AI).

Expensive F&A

When inefficiencies in the finance department continue, the cost of F&A become problematic. Today, PE firms expect F&A costs as a percentage of revenue to approach 1% or less as the company scales up to $100 million dollars in sales. If the number of people needed to manage the transactional functions of the business and create meaningful reporting has to increase as the business grows, potential economies of scale are lost.



Source: http://ww2.cfo.com/operations/2015/05/metric-month-total-cost-finance-function/

5. Buried information

The typical F&A systems that businesses are using force executives to go to the CFO or controller whenever they have a question. While it may feel good to be the only person who can sort through the chaos to get an answer, it puts the business at risk. The business cannot succeed when leaders and managers don't have access to timely, forward-looking information.

Decision makers need fast answers

We live in the world of the smartphone, where answers are a click and swipe away. Frustration mounts when leaders and managers need to make decisions quickly but the information they need is locked up in finance and accounting. Leadership teams today expect and need relevant information to be at their fingertips. The Siri or Alexa of the finance function is not far away.

The strategic impact

When CFOs are dependent on disconnected business management systems, they are spending their time exporting, validating and formatting spreadsheets. In addition, reporting to external audiences, like auditors, regulators and investors has to be completed and reviewed. Managing the reporting process alone leaves the CFO no time to contribute meaningful analysis to the organization.

In a fast changing world, financial analysis is critical to success. Without visibility into comprehensive financial information, it's impossible for decision makers to accurately monitor performance and measure progress on strategy. And, without a firm understanding of the financial position of the business, opportunities and threats go unseen.

6. The Fix: Driving efficiencies through automation and AI with Finance as a Service

To support growth, PE-backed firms can partner with a Finance as a Service (FaaS) provider to modernize the finance function. A trusted FaaS provider will have integrated financial systems that unify data and use AI to gain efficiencies. The finance team can lean on the expertise of their FaaS partner to take full advantage of software functionality and data analysis with meaningful dashboards and reporting that will provide visibility across the organization to the people who need it.

A FaaS solution integrates and syncs with other business-side operational systems like a Customer Relationship Management (CRM) system to maintain a single source of the truth.

Impacts of Financial Management Software and AI

- Eliminates and automates work
- Provides a single source of the truth
- Delivers speed of access
- Promotes transparency
- Eliminates finance as the middle man

Centralize data and control

FaaS centralizes data and provides the foundation for data analytics and AI. The capacity of the cloud enables data from all systems to be consolidated. As data flows across departments, the organization can fully leverage workflows, improve productivity and deliver needed information instantly.

Standardize processes

FaaS provides integrated financial management systems reduce repetitive tasks and duplicate data entry. Automated workflows that drive processes across departments and functions ensure consistent outcomes, from customer service to production. Once standardized, the processes can be driven by software and augmented with AI.

Automate to reduce costs and error

Once your FaaS provider defines and documents processes, automation is implemented to reduce costs and errors wherever possible. A FaaS provider will use AI to replace repetitive, error-prone tasks to reduce the risk of problems and fraud.

Scalability

To grow the organization efficiently, the foundation for scalability is built into the financial management systems. The FaaS financial management platform is functional today and modular enough to support operations for the future with capabilities like:

- Multi-entity support
- System-driven revenue recognition
- Multiple currencies
- Management of contracts and renewals
- Digital procure-to-pay capabilities

Insight through connected data and AI

With financial information collected from across the business, presented in a unified form, leadership has insight into current challenges and opportunities ahead. Connected data supports reporting to provide key insights like:

- Cash position, including the pace of collections
- Customer acquisition costs and ongoing account profitability
- Inventory or service line performance in real time
- Performance gains

AI can sort through and direct the huge amounts of data flowing through an organization to empower CFOs. With meaningful information and automated workflows, CFOs can focus on looking ahead to identify opportunities and be alert for warning signals. Free from everyday distractions, they can spend more time working on strategic partnerships, looking for ways to drive performance and improve visibility for decision makers.

AI replaces manual processes

Through AI-driven accounting, manual processes are automated. For example, in the accounts payable process, the system:

- Reads the invoice
- Extracts the data
- Codes the invoice to the proper general ledger account
- Approves the invoice
- Pays the invoice

This is not the future, it's here today!

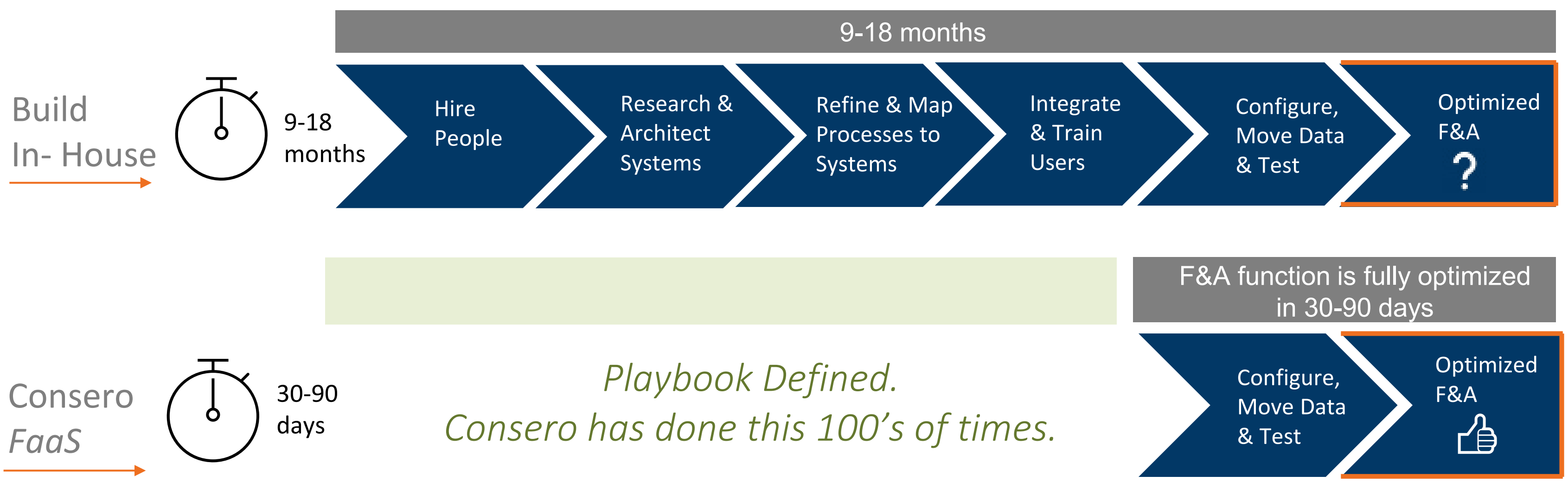
Driving efficiencies of automation and AI with Finance as a Service

Consero's Finance as a Service solution provides Investors and their portfolio companies with an out of the box finance and accounting department and accelerates the ROI of your acquisitions. Following our proven delivery model, we handle the day-to-day finance & accounting activities needed to support the company's routine business operations. Efficiencies are gained through our integrated cloud-based software stack that uses digital processes with automated workflows. Our on-demand finance experts can be leveraged for integration of acquisitions, engineering of new processes and software enhancements to meet the unique requirements of a rapidly growing portfolio.

Insight to focus on growth

Consero will help you get more insight at a fraction of the cost and time required to setup and manage an internal finance team and infrastructure. We can have you up and running in 1-2 months, delivering real value including:

- A virtual finance and accounting department with experienced professionals
- Reliable back-office services: transaction processing, an efficient month-end close and timely, audit ready financials
- A standardized and automated cloud-based finance & accounting software stack with surgically mapped workflows delivering real-time visibility into key financial data for the company and PE sponsor
- Single login for all financial information and finance team communication
- Advanced financial reporting and analytics



Remove the burden of accounting

By leveraging Finance as a Service (FaaS), a private equity fund can focus on its investment management while a trusted FaaS partner handles finances across their portfolio. Their outsourced partners have the ability to employ the very best talent thanks to remote work. By removing the burden of accounting from the in-house staff, portfolio companies have more time for investment management and their clients.

With Consero providing the finance and accounting foundation, your leadership team can focus on driving value in your portfolio companies and build the momentum of growth. We provide deep financial insight for:

- More informed decision making with visibility to underlying business performance drivers
- Streamlined and scalable portfolio company operations in 1/3 of the time
- Lower F&A expenses for increased EBITDA and enterprise value

We understand the unique life cycle of private equity investment, where a fast and effective integration process is key to maximizing the value of each acquisition. In these times of high asset prices, it's vital that PE firms waste no time in realizing their investment case. And Consero's Finance as a Service can free up both the private equity firm and the portfolio company to focus on the real priority: creating value that makes great companies and great returns.

CONSERO

Financial clarity and efficiency made easy

Contact us for a complimentary assessment at 866-588-0495 or visit www.conseroglobal.com.

Optimized Finance & Accounting

- CFO afforded more time to focus on strategy and M&A
- Audit & due diligence ready
- Books are closed within 5-10 business days
- Poised to scale with digitized, scalable systems and processes
- Standardized KPIs and forward-looking metrics
- EBITDA improvements within F&A organization