Investor Growth Strategies:

How to Build a Scalable Finance & Accounting Platform for Successful Rollups

CONSERO

Financial clarity and efficiency made easy

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For those Private Equity (PE) firms employing a rollup strategy, it's critically important to develop a systematic, repeatable process to onboard acquisitions quickly and get a clear understanding of the true financial and operational status of the business. For a growing number of PE firms, the "rollup platform" provides the foundation for financial reporting and operational standards to improve visibility and accelerate acquisition returns.

In this eBook, we'll explain how PE firms like yours are using rollup platforms to apply systematic processes to financial and operational functions. Aligning the people, processes and technology of acquisitions in less than two months—instead of a year or more—PE firms can scale the business quickly to achieve growth targets.

Read on to find out how you can bring visibility to hidden costs, inefficient processes and unnoticed opportunity to realize the returns on investment faster.

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Why PE Firms are embracing the rollup

Bain's 2019 Private Equity Report found that nearly 30% of PE firms are employing a rollup strategy. The rollup, where multiple small companies are acquired and merged, allows PE firms to build economies of scale through a single brand supported by shared sales, marketing and operations. To grow the business effectively, the administrative infrastructure and reporting systems should be standardized across the acquired operations. The ultimate value of the business is created through a much larger entity that will produce higher profits and command a higher valuation multiple upon exit.

The critical role of finance and accounting

While the end game of a rollup will be to build on market and operational strengths across the whole business, it's the finance and accounting function that provides the insight to "steer the ship." Getting the finance function up to speed quickly not only achieves efficiency gains expected of a rollup within the F&A function, but also gives your leadership and managers the data needed to help them focus. Critical F&A functions to support a rollup include:

- **CFO focused on strategic financial guidance and business oversight:** Rather than being consumed by accounting issues in the business, the company CFO needs to focus on evaluating M&A opportunities, assessing and improving business performance, and ensuring capital is being deployed in the right areas for organic growth and improved profitability.
- **Scalable processing of customer and vendor financial transactions:** Transactional processing has to be accurate and timely but it also needs to be cost effective to minimize G&A spending and to eliminate operational bottlenecks as the business grows. Things not only need to work today but need to function efficiently even as volumes grow significantly.
- **Timely financial and operational reporting and insights:** Reporting for both 3rd parties and company management is critical for compliance as well as in maintaining and improving business performance. While much 3rd party reporting needs to be GAAP compliant, management reporting needs to be in business speak.
- **Rapid integration of acquired entities:** Allows the business to deliver the anticipated efficiency gains on each acquisition. While top line growth is critical to maximizing the valuation of the business, a failure to demonstrate operational economies of scale will raise questions about the whole foundation of creating additional value through M&A.
- **Reliable support for financial audits and/or a sale of the business:** Critical to maximizing the value of a rollup business is ensuring that financial support schedules and revenue details are completed, tie out to the financial statements and are in formats that are quickly digestible to someone outside of the business. Requests for additional information also have to be turned around quickly to avoid costly delays and/or a loss of confidence from a buyer.

Common challenges of the rollup strategy

The potential returns of the rollup strategy depend on the efficient integration of people, processes and systems of each acquisition. Unfortunately, a lot of changes typically have to be made at the portco level to get an adequate foundation in place to efficiently fold in new acquisitions and to report on the overall and entity-level performance of the business. A failure to get the foundation in place ensures that the company will struggle with M&A integration. Common challenges include:

Personnel

Skillsets at the portco level often need to be upgraded to align with a high-growth environment and an institutional investor's requirements. Most often the PE firm will hire a CFO and hope that they can then build out a team under them and institutionalize the company's financial infrastructure. Unfortunately, this approach increases cost but is still unlikely to address all the necessary skillsets needed, leaving the need for costly consulting at different times in the business.

Turnover of personnel is also costly and consumes executive time. It also often exposes the company to the impact of a single-point-of-failure risk. When turnover happens, the knowledge and understanding of systems and processes walks right out the door when the employee departs. The last thing a PE firm or a CEO wants is a CFO who can't focus time on the high-priority strategic initiatives in the business because they are consumed filling in skillset gaps and turnover challenges.

Common challenges of the rollup strategy

Inefficient processes

System limitations and undefined, manual processes undermine operations and limit visibility to actual performance. Gaps that may be minor problems today increase exponentially with each acquisition and can ultimately lead to a bottleneck for executing on future acquisitions. Processes need to be revamped but this reengineering is often extremely time consuming and can drag on for months or even years. This is due to a lack of skillsets to solve it or a lack of time to put on the problem because the day-to-day duties consume the finance and accounting staff.

Disconnected financial applications

Financial data and systems are siloed and disparate, further limiting operational scalability and visibility into performance. As the business prepares for accelerated growth, it becomes imperative to implement systems which offer greater automation and the ability to integrate with other operational systems in the business. This is rarely a problem effectively solved with an “all-in-one” system and instead requires putting together multiple applications in a structured fashion. For example, an accounting system might have broad accounting capabilities but also have a poor employee expense module, requiring a bolt on application to simplify expense report submission. No one accounting system has leading capabilities in all areas and always requires several applications for efficient results. Putting these applications together from scratch most often takes 12-18 months.

To achieve the potential returns of a rollup strategy, PE firms need to prepare for these challenges. With clear visibility to comprehensive data, management can align the people, processes and systems that will propel the business forward.

What you need:
Four building blocks of a rollup F&A platform

1. Integrated & extensible best-of-breed software stack

Low-growth businesses can often survive with a cobbled together combination of desktop accounting software applications and excel spreadsheets. However, in a rollup that will grow in revenue and complexity, you need more than just a general ledger to support business operations. Your financial management platform needs to be right sized for today but modular enough to future proof the operations of the business 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

In addition, the system should be extensible enough to integrate and synch with other business-side operational systems like a Customer Relationship Management (CRM) system or an order management system for efficient order processing and to maintain a single source of the truth.

2. Experienced F&A personnel with a range of skillsets

Successfully delivering on growth in a rollup requires a wide range of skillsets from finance and accounting personnel. Some roles require business-facing skills vs. other roles which need deeper knowledge around accounting treatment but have little business interaction.

Additionally, even with a strong team of "maintainers," there are often event-driven situations in the business which require "builders" who may be needed to support:

- Integrations of acquisitions
- Implementing additional software capabilities

There may be additional capacity needed in periods of high activity. Those "maintainers" may be needed for a short time to:

- Support financial audits
- Respond to sell-side due diligence

In a perfect world, these specific capabilities would be on-demand since the events they need to support are intermittent, not recurring.

3. Robust statutory and management reporting

GAAP-compliant financials are critical for statutory reporting, but an additional set of books excluding expenses related to the acquisition is essential. Business leaders need to be able to see how each business line is doing post-acquisition compared to pre-acquisition—without deal expenses clouding the picture. Without a robust financial management system that can support dual sets of books, creating alternate management reporting will have to be done manually in spreadsheets which are prone to:

- errors
- delays
- inconsistencies with the underlying accounting data.

In addition to needing dual books, the growth of a rollup drives more complex reporting across different business dimensions. Different scenarios can be delivered through multi-dimensional reporting that supports viewing information by department, by location, by product line, by customer, etc. Any or all of these can be essential views for judging the true underlying health of the business and to identify where additional focus is needed.

What you need:
Four building blocks of a rollup F&A platform

4. Centralization, standardization and automation

Scalability is critical across all company operations in order to realize the efficiency benefits expected in a rollup business model. While scalability really means automation, standardization is a necessary precursor for automation. Unfortunately, standardization is extremely difficult to achieve in a distributed structure, making centralization an essential first step. **Once processes are centralized and standardized, it is much easier to assess where automation can be developed and successfully integrated into different processes** to provide the greatest ROI.

Centralization of recurring F&A tasks also allows for the creation of lower cost shared service locations. This allows the company to leverage lower cost labor markets and further reduce F&A costs while simultaneously improving service levels.

Consero's Rollup Platform for PE Firms

Consero's Finance as a Service solution provides rollup investments 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 and accounting activities needed to support the company's routine business operations along with on-demand finance experts as they are needed for integration of acquisitions, engineering of new processes and software enhancements to meet the unique requirements of a rapidly growing rollup.

*"To effectively prepare for a rollup strategy, PE firms need to have the a scalable, acquisition ready F&A function. That function requires the **right set of people** managing **critical processes** through **efficient systems**."*

Bill Klein
President, Consero

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 complete finance and accounting department of experienced professionals
- Proven finance and accounting software stack
- Single login for all financial information and finance team communication
- Easy-to-switch entities to view financials for all portfolio companies
- Advanced financial reporting and analytics

Accelerate ROI and pace of acquisitions

With Consero providing the finance and accounting foundation, your leadership team can focus on additional acquisitions to 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
- 30% 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 a rollup platform. 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.