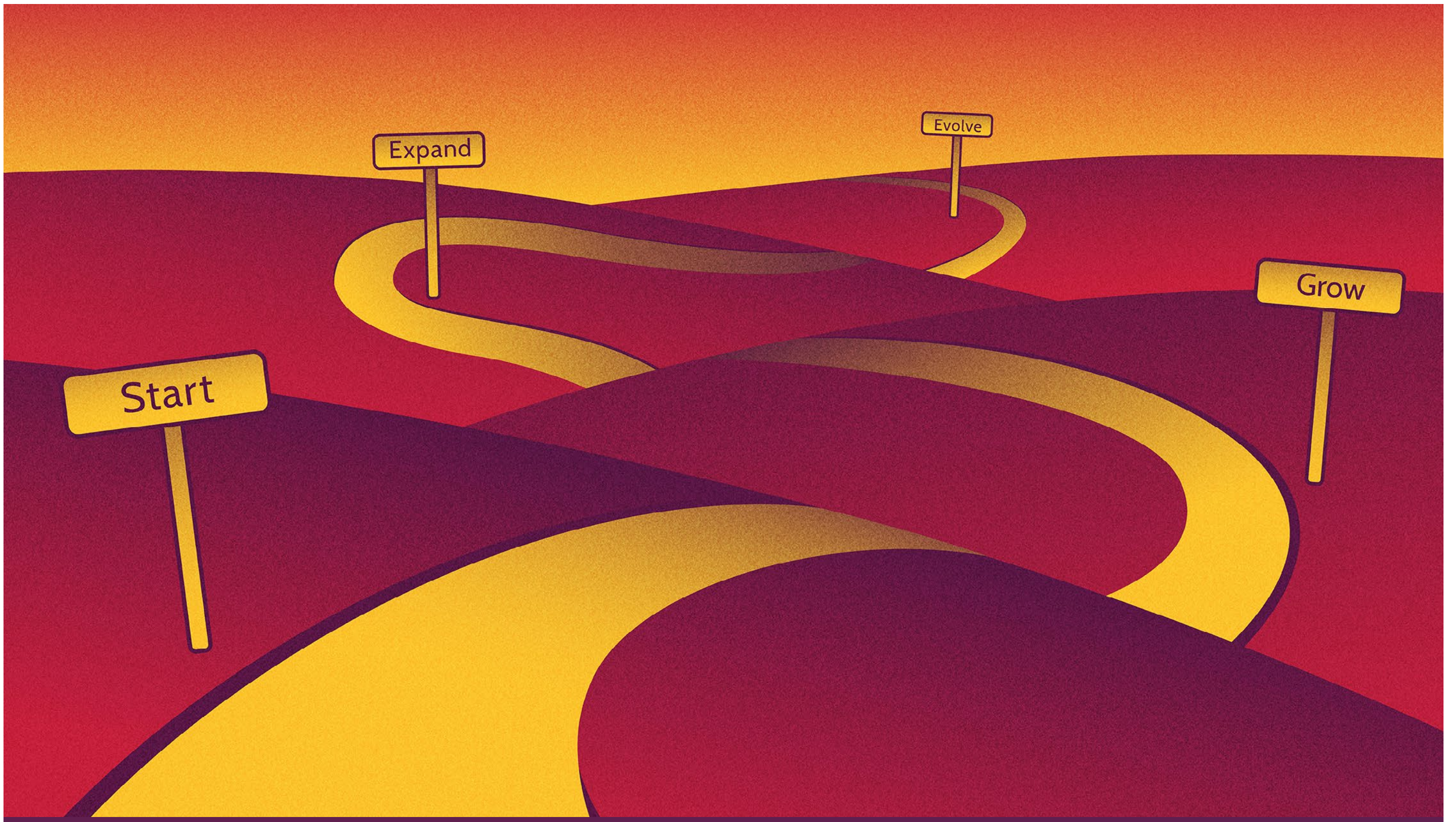
ROSERYAN | *Intelligence Report*



Navigating the business lifecycle

The 4 stages that companies typically travel through, and the obstacles along the way

By Maureen Ryan, Chris Vane and Pat Voll

August 2015

It's natural to keep watching out for the checkered flag, looking to see whether your company will win the prize for accomplishing its monumental goal, faster and better than anyone else. And toying with the idea of lifting off the gas, just a tad, to coast for a moment. But the fact is, most companies are in an ongoing race, chasing after the next stage of growth, pressured to go as fast as they can after each milestone and trying hard to prevent a spinout. Their goals shift as they make their way around, and they have many obstacles to avoid.

After working with hundreds of companies for 25 years, we've seen some patterns emerge. Companies usually travel through what we've identified as the business lifecycle, made up of four innate stages. Spanning from startup to maturity, they typically hit a variety of bumps along the way. Some don't make it all the way around. What is the same for every company: the stage they are in at any one point in time determines whether its finance staff can keep up or whether it's time for a pit stop, to refuel and reevaluate.

As companies start, grow, expand and evolve, their finance needs can change quickly. Smart companies that succeed will corral their resources to get through the current challenges, and emerge ready for the next stage in their lifecycle. Let's take a look at the four stages of the business lifecycle, and the typical finance challenges at each.

Start	Grow	Expand	Evolve
Getting the small business up and running	Building the business to rapidly scale	Boosting the business through IPO, mergers and acquisitions	Overcoming obstacles and reinventing the future
Small business starts up	Managing rapid growth	IPO	Reinvent
Initial struggles for survival		Acquire	Divest

Stage 1: Start the business

Facing bumps in the road at every turn

When entrepreneurs have their "aha!" moments about their hot, new product in their garage, we're pretty sure one topic is not front of mind: setting up their finance and accounting infrastructure. Sure, there will be talk about funding their venture and what happens after the generosity of their friends and family runs out. But the management of their finances doesn't come until later, when these startup superstars realize they can't do it all themselves.

And why should they? Big ideas require big-picture thinking, and the CEO and his or her second in command can noodle that. End games and burn rates are not the first thing the startup CEO considers when waking up every day, at least not in the beginning. But eventually, the cracks in any startup's financial foundation will start to appear, and it will be time to get some structure. The excitement about their big idea is still there but so is the need to get their financial house in order. They may need a part-time CFO to strategize with them, or perhaps an outsourced accounting team to get all those receipts out of the shoe box. A full-time finance team is not yet in the cards, and that's the way to go for now.

An interim controller or interim CFO can grasp the wheel, to drive the financial firepower and structure—handling not just the necessary financial management but also helping with fundraising, and staying on top of tax, regulatory and accounting issues. Plus, the pro can handle the banks so that the CEO can stick with focusing on the direction of the business, not on how it's going to stay afloat. This finance expert can also build a solid finance team that can set up the infrastructure to scale, build out the business plan, keep the burn rate manageable and overall set a wise financial course.

In the earliest days, some occasional CFO mentoring along with some basic accounting may be all the startup needs for its finance support, on a part-time basis for a few hours per week. The trick is to correctly match just the time and talent you need to your situation. The first stage is a struggle, and most new companies don't survive it. However, if the startup succeeds in getting that next round of funding and starts to accelerate, it will move into the second stage.

Truth from the trenches: The start of a hot, new social media business

This story may sound familiar at first. Tech savvy and ambitious, the number one and number two employees had a classic startup story to tell: They had dreamt up an e-commerce solution in their dorm room and believed they could turn it into a profitable business. To hit it big, they knew they needed to plant their roots in the promised land for entrepreneurs—Silicon Valley—and set up their business in a scalable way. They knew they needed the assistance of experts who already get the ins and outs of the Valley and the unique needs of young startups.

RoseRyan provided them with an interim CFO, who built financial scenarios for the cross-country move and prepared to handle their finance needs in California. We helped mold the bootstrapped tiny company with efficient processes and a solid infrastructure and got them running on QuickBooks, so the company had the footing it needed to power through its natural course. And it did just that—speeding through rapid hires and reaching its first round of funding.

In the early days, we handled both strategic CFO decisions as well as tactical accounting duties, supporting the company's growth and meeting with bankers and insurers, providing AP/AR and general accounting solutions and getting the company's finance basics in place. All this effort set the foundation so that when the company got more complex—and successful—the entrepreneurs had a solid base for handling hyper growth, with over 80 million website visitors and counting.

Stage 2: Grow the business

Moving at high velocity requires careful management

After surviving the existential struggles of the startup, companies enter the next stage of the business lifecycle and take on a whole new wave of financial challenges. While all signs are optimistic, most companies ride through a gut-wrenching course of growing pains. In a hyper-growth mode, businesses ramp up quickly, new demands are coming fast and furious, and everyone is crazy busy. They're scaling and adapting processes and trying to cope with all the changes. Will they get enough funding to go the distance? Is the financial plan solid? Is the next product launch on schedule? What is the optimal burn rate? Are the systems maxed out? It's a tumultuous time with complex finance and accounting issues to boot.

This is the stage when the finance organization begins to fully take shape, with the first full-time CFO brought in to develop a robust finance engine and a solid work team. It's a challenging yet stimulating role. Bruce Felt Jr., CFO of Domo Inc., a provider of cloud-based tools, hit the nail on the head when he described the challenges of the finance team at companies in hyper-growth mode. "It's just harder to manage in that environment," he told *The Wall Street Journal*. "It's hard to get enough talent. It's hard to control the business. It's extremely difficult to put together 100% growth year after year after year."

One positive outcome is working in their favor: companies at this stage have beaten the odds. The first product and the first batch of customers are in the bag. But round-the-clock hours are still a thing and so is high stress. The company needs to tackle a difficult challenge—steering growth at a manageable pace. This is easier said than done. Many companies are overly confident in their planning and rapidly sputter. Some vector quickly and get back on track. Others do not. Some companies simply expand too fast into a second product family, industry or geography, miss their revenue, and blow up.

The best CFOs and senior finance leaders provide the CEO and the board with sharp advice about growth and goals, funding rates and burn rates to set the course and pace the path. They

Truth from the trenches: Tremendous growth at a consumer goods company

Fast growth is great, as long as you can keep up with it. A consumer goods company had pushed past the start stage and was growing quickly. It was tough going—surviving by the founders' passion and sheer grit, plus a word-of-mouth chain that was increasing orders every month. This startup was in a tricky spot. They risked not being able to handle their own growth.

What they needed was financial discipline, a fact one of the founders with a background in investments realized quickly. He knew that many companies don't make it very far. RoseRyan pros stepped in to handle both the controller and accounting manager functions to make sense of the company's books, which thus far had been loosely organized. They then took the finances to the next level. To build out the business plan, the team focused on website analytics to see how users were ordering and spending—thereby gaining predictability to the business. And then they zeroed in on the true cost of sales as well as developed several cost of goods scenarios. These were important areas of the financial plan that needed time and attention.

The RoseRyan pros also supported the company through the first audit, two rounds of funding, and laid the foundations for hiring its first full-time CFO and controller. The company is still expanding quickly, and has the scaled systems and tight processes they need for smooth monthly and quarterly closes. When the right size infrastructure is in place, that's when a company can really speed along.

may lean on a savvy finance pro who can provide guidance on end games, whether it is through organic growth, IPO or acquisitions, and get things lined up well for the desired outcome.

In a high-growth situation, the financial systems and infrastructure can max out quickly (and so can the staff). The finance team needs to ensure the systems and processes are ready to scale and take them to the next level when the time comes. Companies that can put in controls and structure while also remaining agile tend to smoothly progress to the next stage. Those that do not could get stuck here for a while.

Stage 3: Expand the business

Wrangle the explosive growth of IPO or acquisition

Companies at this stage are undertaking a major transformation by acquiring another company or going for a big splash on Wall Street. It is a time of pedal-to-the medal speed, and chaos is just around the corner. There are many reasons for the big change: gaining access to capital, folding in some intellectual property or hiring some special talent (the "acqui-hire"), to name a few.

"Hey guys, it's time to bring in a whole bunch of new people who are working on entirely different software than us, and who do things much differently than we do. There's some big upside to all this, we swear."

Heard that before? Many CFOs have made this rallying cry to their team at some point. When companies turn themselves inside out for a big transaction, the finance team has a strategic role to play. The transaction will be far reaching and will lean on the skills and energies of everyone on the finance team to get them through it. It is inevitable that the team won't be exactly the same when it is all done. In fact, major roles may have to change.

Senior finance leaders need to really lead and plan appropriately, as it is piles of additional work on top of the day job. The whole group may be under-resourced, with a need to hire more people or lean on outside consultants with specific skills to help them cross the finish line. Resource planning and staying organized are paramount.

Truth from the trenches:
Getting merged companies in sync before an IPO

Two companies may be the perfect match on paper, but getting them to mesh in reality can be a challenge. The bigger they are, the bigger the challenge. A recently combined multibillion company was standing on wobbly financial footing and stovepiped IT systems. This clean tech company had to integrate two sets of books as well as multiple layers of management and find common ground among CFOs of multiple divisions.

As you can imagine with two separate companies joining forces, over time there were factions and internal issues that crept up. Managers were split in different directions, from their need to keep the business running smoothly and the pull from the parent company to change course for yet another version of the business to take shape.

At times like this, the finance team needs to assess its limitations and consider whether other skills need to be brought in, possibly temporarily, to get over a transitional hump. No matter what is going on at a company, the corporate reporting function has to keep on schedule, for the company to know how it's truly doing and for making future plans.

For this company, RoseRyan gurus teamed up to provide sanity amidst the chaos, and we helped them with a boatload of technical accounting issues, including revenue recognition, inventory, segment reporting and conversions from IFRS to GAAP reporting. This company, on the brink of a multibillion dollar IPO, needed assistance to go in the right direction—forward.

The transformative effects of an IPO. Going public is a whole new race—a more complicated course flanked by attentive and rowdier spectators. The spotlight is on and it'll keep getting brighter as the big day nears. There's a push to get the S-1 filed with the right information and within the internal timeline, all while anticipating regulators' and investors' questions to avoid surprises later. And it's also a time to revisit processes and systems to make sure that when the company is in the public eye it can meet the faster reporting deadlines (welcome to the quarterly crunch!).

Acquisitions are volatile change. Acquisitions can be enormously fruitful but also a drain on the finance team. They are working double time to consolidate financial information and learn how the other business has been run. The stress of a deal can lead to fallouts. The work required to successfully stitch together an acquisition shouldn't be underestimated.

The fact is that big transactions are disruptive and there's no way to sugarcoat it. Whether the big deal ahead is an IPO or an acquisition, the responsibilities of the finance team will rise significantly. Either outcome is a huge project, and it is wise to plan ahead. New scrutiny and higher demands will come from all angles. And finance leaders are expected to work a tighter ship with a willingness and ability to communicate both inside and outside the company. Understandably, many companies rely on trusted finance pros to get them get through the rocky times before and after the big event.

Stage 4: Evolve the business

Getting the business through ups and downs, and reinventing after crisis

Even mature companies that have established themselves, proven their worth on the stock market and branched out into new territories encounter fresh challenges as they move along their business lifecycle. This fourth stage is where mid to large companies may find their groove but risk losing market share if they get complacent. Or they may face a crash and burn moment—such as a failed product launch or a miscalculated geographic expansion. Or they start to view a once-coveted business as a drain on the portfolio and choose to divest it. The pressure is always on to be strong, nimble and highly innovative.

Truth from the trenches: Thriving at the business life amid the chaos

What's holding the company back? It's a common question of the ongoing enterprise that has tapped its well for growth. Some companies are too big and unwieldy to keep up with the competition and to keep pumping out innovative products, while others may have made buying mistakes all along.

A technology company we have worked with for many years—providing SOX, accounting system and fixed asset support, among other solutions—called us up when they were in a whirlwind of change. A private equity firm that had recently invested in the company was on a streamlining mission and a spinoff was on the table.

To begin, RoseRyan brought in a blueprint to show how we could help, including the functional finance roles we would bring and the oversight we could provide the team as they scattered in various directions. We worked with the multiple players—the company was using several other consulting firms as well as audit firms—so the core finance team could focus on the day-to-day business. We dove into critical areas such as fixed assets, severance, payroll, SEC reporting and technical accounting.

The last thing an evolving company wants as it changes direction and comes out a different entity—or two in this case—are operations run amok and missed reporting deadlines. With the key functions of the business getting support, the company could run smoothly, and the surprises and uncertainty surrounding the deal at hand came to an end.

The finance challenges at big companies are significant. The finance team has to conquer a constant stream of reporting, compliance and regulatory needs that seem to multiply year after year. Major milestones appear to get more aggressive, too, with demands coming in from the board, investors and sometimes the auditors for new forecasts, reports, analysis and insights. The finance leaders need to tell the story behind the numbers in a clear and compelling fashion, and show where the company is heading next.

Sometimes the company will skid off the rails due to competitive pressures, changes in regulations, new trends in customer buying patterns, or because they're riding the innovation curve too low. Companies that can exit the vehicle intact may restructure and get on a new course. Sometimes it is best to spin off a distracting business. Divestitures can strengthen companies as they get back to basics and focus more tightly.

Finance teams can be thrown off course with the shifting sands of corporate strategy. The best finance leaders guide decisions with other senior executives across the firm to develop the new strategy and the optimal financial scenario to get them there. They're prepared to shift gears. If the company goes through a severe crisis along the way, critical deadlines may be missed, key personnel could defect, or other factors could lead to a gut-wrenching restatement. Solid finance teams overcome the odds. Whether coping with a crisis or launching a new strategy, finance teams are stretched to the gills at many mid to large enterprises and may appreciate outside help to get through it.

Conclusion

Companies run their own course. One may come across more twists and turns than another, and some fall off the track all at once. But for the most part, many follow a similar trajectory through the **business lifecycle**. After the rough road of starting and fighting for survival, companies undergo growth spurts that test their very limits. Some later expand further by IPO or an acquisition in a burst of steam. And the wild ride doesn't end there—as they shape-shift and evolve into a mature company, they expand and contract, perhaps adding or spinning off businesses over time, depending on the circumstances. All of them hit the wall at some point, and need to reset a fresh course or reinvent for survival.

The finance needs are different at every stage, along every bump in the road, and the expertise needed becomes even more demanding. Finance teams are ever challenged to broaden their skills and rise to the occasion. And when there is a gap, it is comforting to know that they can lean on likeminded, highly skilled finance pros for insights and trusted advice.

About the authors

Maureen Ryan, vice president at RoseRyan, heads up business development and has seen the emotional rollercoaster of the lifecycle first hand. She's held positions at Nortel Networks, Bay Networks, Quantum Corp and General Dynamics. Many companies are in a frantic mode between growth spurts and change, and Maureen finds a way to get them through it.

Pat Voll, vice president at RoseRyan, heads up client management and she's an ace at helping companies think through future steps on their journey. Before RoseRyan, Pat held various financial management roles with public companies, including Advent Software and Trinzic, and she also worked at Price Waterhouse as an auditor.

Chris Vane, director at RoseRyan, helps companies across all stages of the business lifecycle, and has worked with hundreds of technology and cleantech companies. Prior to RoseRyan, he was a partner at Computer Sciences Corp., and he helped startups at Lante, an Internet consulting company.

About RoseRyan

RoseRyan takes dynamic companies further, faster, by delivering specialized finance and accounting solutions at every stage of your company's growth. Versed in Silicon Valley's rapid pace and unique business environment, our consulting firm has helped 800+ companies achieve success since 1993. No matter the size of your company or the scale of your next endeavor, RoseRyan has the wide-ranging solutions you require to accelerate growth.

Find us at www.RoseRyan.com.

Rated **4.7** out of 5 stars by clients

More than **800** clients

25 years in business