HOW TO OPTIMIZE THE FINANCE FUNCTION PRE-IPO

PREPARING FOR PUBLIC LIFE & LONG-TERM GROWTH

Industry leading companies generally exhibit a common trait: continuous improvement in pursuit of the optimal operating model. The office of the CFO, and thereby the finance function, oftentimes takes the lead looking for optimization opportunities for public or soon to be public companies. Successful organizations not only meet the requirements to operate as a public company, but also transform their finance teams into business partners to their organizations. These teams help drive value and growth opportunities and enable informed decision-making across the business, from identifying the underlying reasons behind margin decreases to spotting changes in customer buying behavior. A well-structured finance function, supported by an empowered team, and optimal processes and technology, is critical to sustaining a long-term growth trajectory.

Once the decision to IPO has been made, companies should start preparing as soon as possible to have sufficient time to implement changes, test new approaches and pivot their strategy as needed. To prepare for an IPO, the finance function must determine the team's readiness to operate efficiently and effectively as a public company.

As Part of this Assessment, Consider the Following Questions:

- Do the finance leaders have experience navigating the transition through an IPO to operating as a public company?
- Do finance teams understand the different reporting and analysis requirements between pre- and post-IPO life?
- What are the resources needed in order for the team to march towards IPO?
- Is there a plan to scale the finance function as the company grows post-IPO?
- What data is available to the finance team and how reliable are the various sources?
- How accurate are your forecasting models and projections? What steps should be taken to strengthen and improve the reliability and agility of the FP&A function?
- Can the business meet reporting deadlines without a risk of misstatements?
- Is the organization ready to be Sarbanes-Oxley (SOX) compliant?

We have outlined three major steps businesses should consider taking to address gaps or opportunities uncovered via these questions.

Step 1: Build Your Team for Success

Once an organization has assessed the talent gaps and opportunities within its finance function, consider the following:

- **Evaluate your current staffing and finance organization structure with a critical eye.** Does your finance team have the technical knowledge, the experience, and the desire to support the organization as a public company?
- **Determine which roles to hire and which to outsource.** Building out your team for success does not always mean hiring more in-house talent. Instead, think about which roles and functions your current team members would thrive in, and evaluate which roles would be better suited for outsourced or co-sourced arrangements instead of internal specialization. Similarly, consider the support you need to push toward the IPO vs. the public company routine you are looking to support post-IPO. As you begin to operate as a public company, your talent needs will shift from the heavy push towards IPO to a routine monthly close. What you need today may not be what you need in a year.
- **Rethink onboarding and training programs.** Adjust onboarding and other training programs to educate new and current employees about expectations for their roles as part of a public company.
- **Invest in automation.** Optimizing your processes and technology architecture can also have a direct impact on the makeup of your teams. Tools like robotic process automation (RPA) that automate data entry and other manual tasks can help speed up the reporting process, improve accuracy and allow the business to process a larger volume of data. Investing in the right technology for your organization can also free up teams to focus on higher-value analysis.

Step 2: Improve the Speed, Reliability and Accuracy of Reporting and Controls

To operate with the speed, accuracy and agility expected of a public company, finance leaders must collaborate across their organization, including with IT and operations, to streamline their business processes and establish the internal control infrastructure. The reporting infrastructure and controls environment must enable the business to meet SEC and regulatory reporting and compliance requirements and timelines.

The following practices can help improve reporting quality and strengthen controls:

- **Implement uniform policies.** Establish consistent controls and reporting processes across the organization. Immature control environments – often in newly acquired or less mature areas of the business – can hinder a company's ability to provide information to investors and auditors. Streamlined policies and processes help mitigate risk, improve the speed of the close process, reduce the chance of errors and support SOX compliance.
- **Practice pre-IPO.** Rehearse operating as a public company before the IPO to test changes made to reporting and controls. This can enable a business to determine what works and which gaps remain, as teams gain experience operating under the new policies and processes.
- **Consolidate reporting systems.** If different departments, locations, business lines or functional groups use disparate systems to report data, it can lead to misstatements or incomplete data. Organizations with two or more ERPs, for example, should consider integrating into one platform or consider the ability of a single consolidations package to support the needs of the organization.
- **Collaborate with IT.** Finance leaders should make sure that IT leaders understand their role in SOX compliance and work together to design and implement effective IT general controls. Finance and IT should also work together to implement business process and IT architecture that enables company-wide data management strategies to enhance decision making. System and IT changes are critical early discussions as many implementations take multiple months to complete and have an impact on the effectiveness of teams and processes.
- **Test your FP&A forecasting models.** Public companies are closely scrutinized for meeting performance goals and projections. Refining the FP&A function and the organization's ability to set and meet its projections is a critical step to success as a public company, which needs to be enabled by optimal teams, processes, and technology.

Step 3: Unlock Insights from Company-wide Data Sources

Data is the key to transforming finance into an insight producer for the rest of the organization. Finance teams need not only access to data, but also the ability to efficiently process, analyze and validate that data.

Consider these steps:

- **Teach teams to think about the big picture.** Teach teams to analyze data from around the business, then leverage their findings to adjust strategies and achieve desired financial outcomes. They should learn to think strategically how the company is performing, for example, by comparing their own data to competitors' data to ascertain what they must do to improve. Teams should understand the underlying trends driving the numbers – such as margin changes – and recommend strategies to resolve issues and invest in areas of opportunity.
- **Align strategies around a common goal.** Ensure your various finance functions, strategy, operations and IT departments are prioritizing the most urgent needs of the business and focusing on a common goal. In high growth organizations this often presents itself as a challenge too late in the process. Early communication and consistent leadership is the key to success.
- **Invest in advanced modeling tools.** Finance teams need to be able to quickly model the financial implications of business decisions and provide input to operational leaders. For example, many organizations are missing an opportunity to make more tax-efficient business decisions; according to the 2022 BDO Tax Outlook Survey, only 45% of tax leaders are included in their organization's strategic planning. To accomplish this, consider investing in advanced modeling technology that enables quicker forecasting.
- **Define data strategy to guide collection and analysis.** As finance collects larger volumes of data, develop a strategy to store and process that data before it becomes unwieldy. Consider the use of cloud-based data lakes and warehouses to keep large volumes of data in easily accessible formats to all necessary stakeholders. As always, consider if this data is suitable for external consumption and inclusion in SEC filings to serve as a single source of truth. Data integrity is paramount.

Ready to see these strategies in action? Read how we've helped clients throughout their IPO journeys.

By taking these actions, finance teams can prepare for success post-IPO and fulfill their role as business advisors and growth catalysts for their organizations.

CONTACT US TO PREPARE YOUR FINANCE TEAMS TO IPO AND ENABLE LONG-TERM GROWTH ▶