mosaic

# The Startup's Guide to Finance Fundamentals

# Introduction

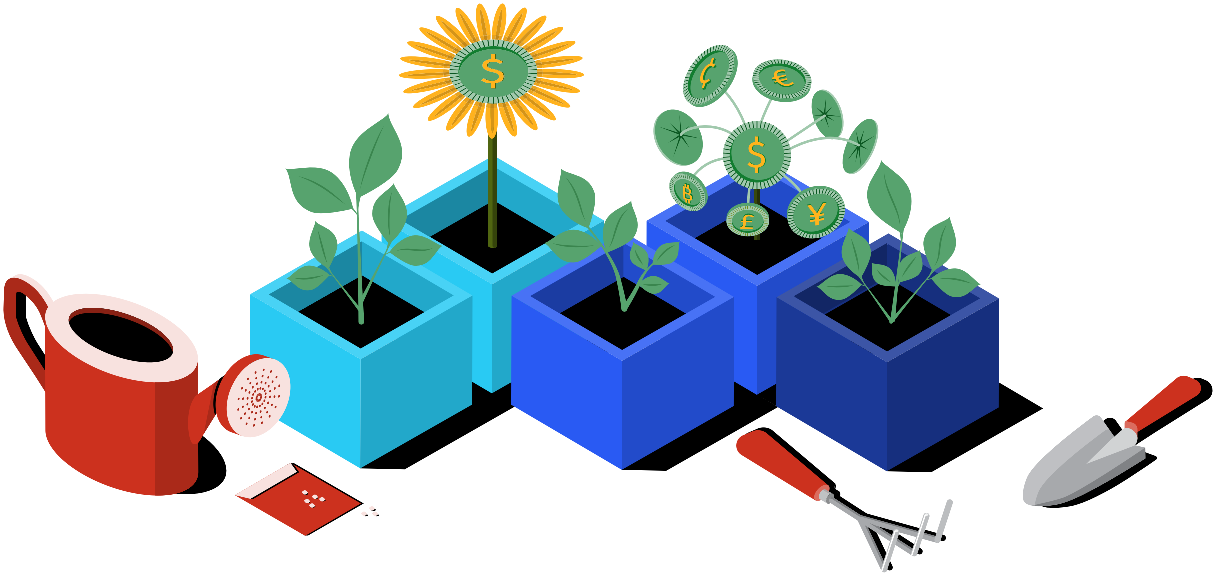
## Everything changes for a startup once it completes its Series A financing.

You've proven product-market fit, and now you're expected to navigate the growth ahead. That means investing more in product, marketing, and sales. But if you aren't also establishing a formal finance function, you may not reach the pinnacle of your startup's growth potential.

Finance functions are so lean at the Series A/Series B level and there's so much that falls on your shoulders. You have to manage payroll, cash flow, credit control, financing, and reporting. In between it all, you need to squeeze in some time to do the strategic planning that will fuel your company's growth engine. Oh, and don't forget to eat and sleep once in a while.

Balancing your many responsibilities can seem impossible at times. But if you take the right steps to establish finance fundamentals early on, you can alleviate some of the pressure in the short-term and set the stage for a high-growth trajectory in the long-term.

Our five-part framework will help you establish your finance fundamentals early, elevate finance's strategic role in the business, and set your company down the path of growth and profitability. And the sooner you get started with it, the better life will be for your lean finance function.



# Use this five-part framework to establish your finance fundamentals, elevate finance's strategic role in the business, and set your company down the path of growth and profitability.

# Part 1

## Establish a Collaborative Approach to Financial Operations

The first finance fundamental is about establishing a collaborative approach to operations that helps you build strong relationships with business leaders. It's not enough for the finance function to quietly grind away behind Excel spreadsheets and control the numbers. Support your growth-stage startup by consistently communicating with business leaders in a common language and deeply understanding each department's needs.

Your biggest advantage at the Series A/Series B growth stage is that your startup hasn't had time to form any bad habits. You're able to start from square one and think in terms of first principles rather than trying to undo broken systems and processes. Make the most of this advantage by putting processes in place to help finance work closely with business leaders even as the company scales.

**"Finance's customer is everyone in the business, from sales and marketing to product and the executive team . . . You've got to speak their language by translating the numbers into something that has meaning. That's what earns you a seat at the table as a strategic partner."**

— Colin Anderson, former CFO of Palantir

## When you get out from behind the spreadsheets...

...and establish a collaborative approach to financial operations, you create a foundation for your role as a strategic partner in the business. There are **three key aspects** of this collaborative approach.

# 1 Speak the language of the business

Finance isn't the language of the business. Business partners will just tune you out if you try to communicate with them using financial jargon. Your CEO doesn't want to hear about things like GAAP revenue recognition or working capital.

Collaborate with them based on terms that they understand and care about—metrics like runway, net burn, and revenue.

# 2 Build a bottom-up understanding of the business

To create an effective financial model for your Series A/Series B startup, you need a strong bottom-up understanding of the business. That means having deep conversations with department leaders to understand their specific goals and financial needs.

These conversations give you the foundational knowledge to build a financial model that accurately reflects your startup—and ultimately helps you forecast more accurately.

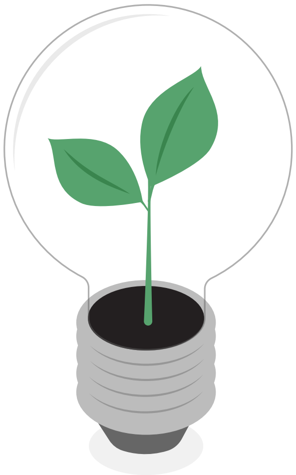
# 3 Establish trust through repeat interactions

Taking a collaborative approach to financial operations means establishing a continuous cycle of conversations with business leaders. You build trust with business leaders when you're repeatedly interacting with them and helping them solve strategic challenges.

Avoid getting stuck in the grind of working behind Excel spreadsheets, so you can focus on valuable repeat interactions with your partners.

## Great financial operations begin and end with people.

If you don't establish a collaborative approach, it won't matter what technology or processes you put in place. Get this finance fundamental right, and you'll have a foundation for startup success.



# CFO TIP:

Keeping the C-suite and leaders up to speed is critical, however, don't overlook educating the rest of the organization on the world of finance. Carve out time during all hands or team meetings to discuss  business metrics and unpack how teams contribute to the overall company goal.

# Part 2

## Build a Finance Tech Stack with the Right Tools

An effective finance tech stack is one that's both appropriate for your company's current size and flexible enough to support your growth.

Excel spreadsheets can only take you so far before your company demands greater agility from the finance department. But choosing the right SaaS tools for your growth-stage finance tech stack is crucial for streamlining operations.

**"There are more opportunities than ever before to add relatively inexpensive tools and get more done with fewer people in finance. These tools are going in earlier and earlier to help finance scale."**

— Ron Gill, former NetSuite CFO

There are **four main types of tools** that generate financial data for your business. Here are our recommendations for which tools to consider in each category at the Series A/Series B level.

# Accounting System

This system of record houses detailed accounts of all the financial transactions made across your business. And there are really two tools that dominate this category of financial tools—**QuickBooks** and **NetSuite**, which have a combined 76% market share according to a [CFO Roundtable survey sponsored by Bain Capital Ventures].

We recommend that Series A/Series B startups stay on QuickBooks (or **Xero** as an alternative) as long as possible because it's simple and affordable. But upgrading to a full-fledged ERP like NetSuite becomes a necessity when your operations reach a certain level of complexity—whether that means you're looking for more advanced reporting or have to manage financial data for multiple subsidiaries.

# Billing System

Cash is king for growth-stage startups, and billing/payment systems are the financing engine that keeps your business running. We recommend either **Stripe** or **Chargebee** for your finance tech stack.

Stripe is the de facto platform for charging customer credit cards. And while the platform is generally known for payment processing, it has subscription management features that can help you manage SaaS subscriptions. Chargebee is an alternative that's built specifically for recurring revenue models, giving you better out-of-the-box reporting features.

# Payroll and HR System

Rapid changes in payroll expenses and staffing-related costs cause ripple effects that impact budgets across your entire organization. The right payroll and HR systems will give you clear insights into headcount-related financial data, so you can understand the impact of each hire.

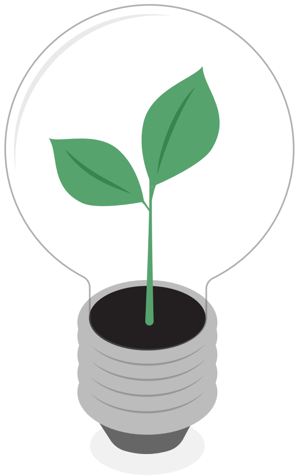
We recommend **Gusto, Justworks,** and **Rippling** for this piece of your finance tech stack. Each system combines payroll and benefits management into one platform to keep your operations as lean as possible. But each has its strengths and weaknesses.

**TriNet** is the more mature standard, although the CFO Roundtable survey found finance teams have issues with its usability. Justworks has emerged as a market leader, owning 47% of the professional employer organization (PEO) space. And while Rippling is highly rated as a PEO, it isn't as widely used as a tool like Gusto that thrives with smaller organizations.

# CRM System

CRM systems aren't typically listed as components of a finance tech stack. However, these tools are critical for connecting customer and sales pipelines to your financial operations. They give finance insight into key metrics, like retention, renewal, and closed-won/lost deals.

We recommend you choose between the two CRM market leaders—**HubSpot** and **Salesforce**. Salesforce gives you more powerful, customizable features. But HubSpot is generally regarded as the more user-friendly and affordable option. Work with your sales leaders to determine the best option for your specific business.



# CFO TIP:

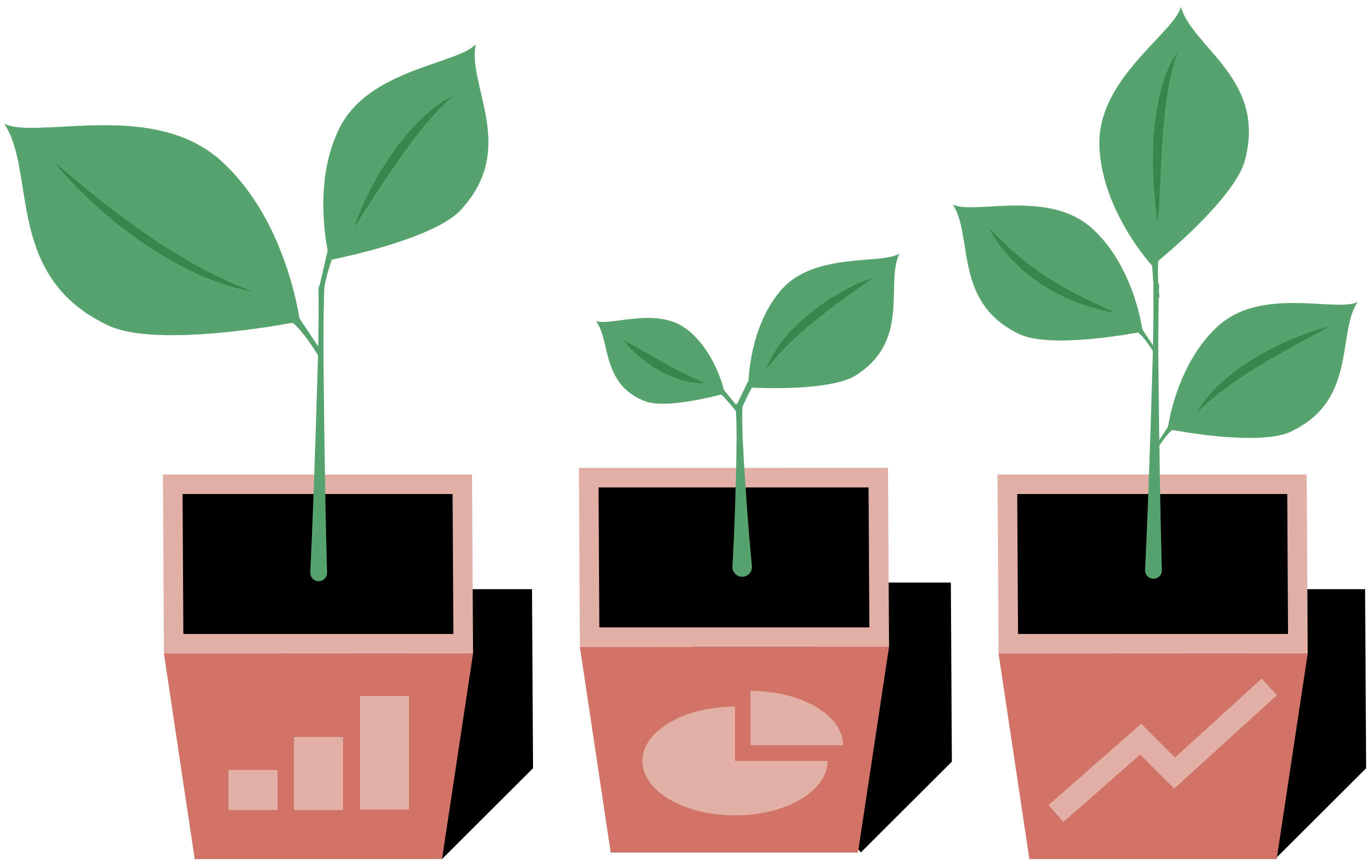
Great data quality comes from great system setup, not historical scrubbing. Use required fields and create calculated fields where possible, sync your systems to each other at lowest granularity possible, and create all the fields and segments you think you will care about a year from now.

# Part 3

# Monitor and Report on the Right Go-to-Market Metrics

One of finance's core responsibilities at a Series A/Series B startup is to align the entire organization on a single set of performance metrics.

Together, the following **seven go-to-market metrics** will give you the perfect level of insight into how your startup is performing relative to its strategic goals.



| Metric | Definition | Calculation |
|---|---|---|
| **Monthly Recurring Revenue (MRR)** | The sum of all monthly revenue you earn from customers regardless of contract length. | $\frac{\text{Total Contract Value}}{\text{Total Contract Months}}$ |
| **Annual Recurring Revenue (ARR)** | The sum of all revenue from customer contracts that are 12 months or longer and active at the end of the given period. | Total Contract Value for Customer Contracts ≥ 12 months |
| **Customer Acquistion Cost (CAC)** | The average amount of money you spend to acquire a new customer. | $\frac{\text{(Sales Spend + Marketing Spend)}}{\text{Total New Customers for Given Time Period}}$ |
| **Customer Lifetime Value (LTV)** | The average amount of money you expect to receive from a customer over the life of their account. | $\frac{\text{(ARPU x Gross Margin)}}{\text{Churn Rate}}$ |
| **CAC Payback** | The amount of time (generally in months) it takes your business to break even on a customer. | $\frac{\text{CAC}}{\text{(Net New MRR x Gross Margin)}}$ |
| **Net Revenue Retention** | The total change in recurring revenue from your customers over a given period of time. | $\frac{\text{Current Recurring Revenue (MRR or ARR)}}{\text{Recurring Revenue in Previous Period}}$ |
| **Magic Number** | An efficiency metric tracking how many dollars worth of annual revenue you create for every dollar spent on sales and marketing. | $\frac{\text{(Current Quarter ARR - Prior Quarter ARR)}}{\text{Prior Quarter Acquisition Spend}}$ |
| **Runway** | The amount of time (in months) you have before running out of cash. | $\frac{\text{Total Cash}}{\text{Average Monthly Burn Rate}}$ |

# Know Your Metrics

It's not enough to simply track the metrics. Understanding what each one says about the health of your business is crucial. Here's why these seven go-to-market metrics are critical for growth-stage startups.

## Monthly/Annual Recurring Revenue (MRR/ARR)

These revenue metrics are critical for tracking product-market fit, understanding your momentum as a business, and identifying the right times to invest money back into the company.

## Customer Acquisition Cost (CAC)

This core component of your unit economics helps you understand how effective your sales and marketing functions are at attracting new business.

## Customer Lifetime Value (LTV)

An indicator of the value of customer relationships that shows whether or not your business is losing money to acquire customers. Ideally, your LTV should be at least three times better than your CAC.

## CAC Payback

This metric shows you how long it takes for you to pay back customer acquisition costs with the money collected from a customer. Your CAC payback needs to be shorter than LTV, or your business will never make money.

## Net Revenue Retention

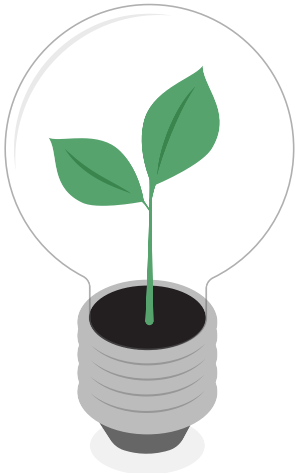
This comprehensive metric accounts for churn, downgrades, expansions, and upsells to provide insight into the health of your customers and show the growth trajectory of your business.

## Magic Number

This is a SaaS-specific metric that explains the efficiency of sales and marketing engines, giving you an idea of when to invest more or less in those functions. A magic number greater than 1 indicates you should invest more in acquisition. But less than 0.5 points to problems you should assess in your acquisition strategy.

## Runway

The key metric that explains how long you have as a business to grow before you need a new cash injection for the business—whether that means becoming profitable, raising a round of funding, or taking on debt.



# CFO TIP:

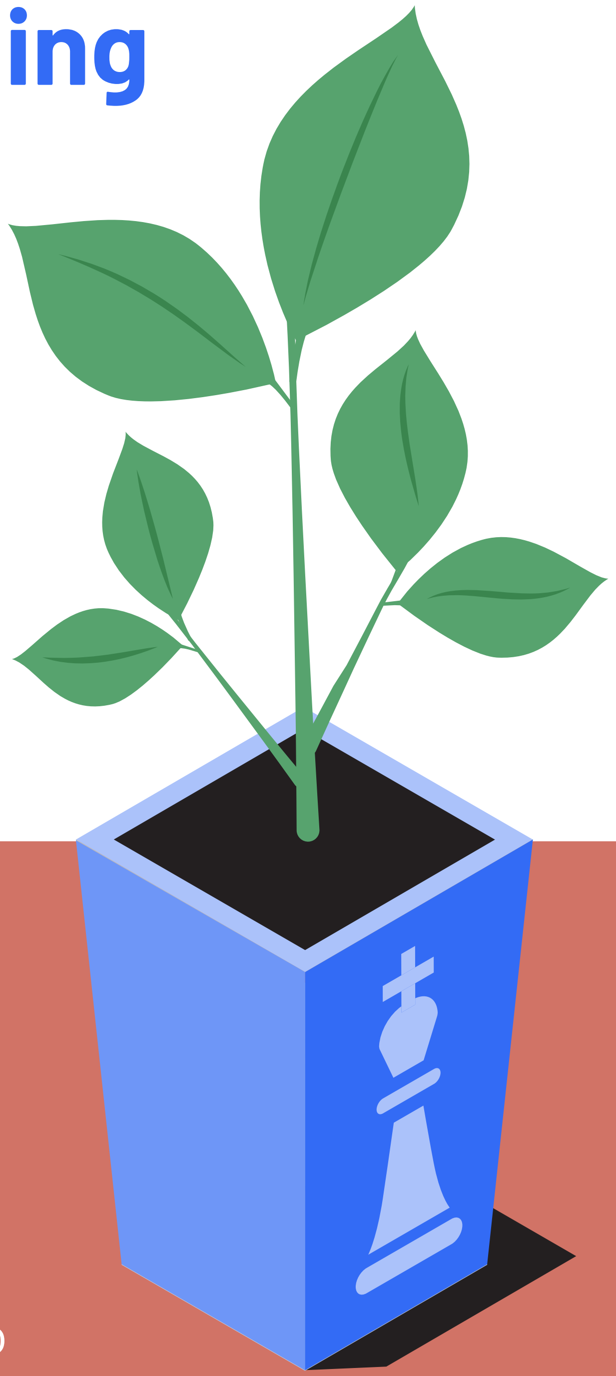
When discussing business health with investors make sure the above metrics are well defined and accurately calculated. The biggest culprit of a board meeting gone sideways is having to explain mismatches. This is an opportunity to drive confidence so try to nail clarity from the get-go, especially during a series B funding round.

# Part 4

# Create a Consistent Headcount Planning Process

Headcount planning is a fundamental part of startup finance because it typically accounts for as much as 70% of total spend—especially in the Series A/Series B stages. Consistent collaboration with business leaders on headcount planning is critical to building trust in finance as a strategic partner.

Create a consistent process for planning hires early, and you'll be able to scale more easily in the future. These are the five basic tasks to focus on.



**"Headcount planning has traditionally been a complex, fragmented and error prone calculation. The sooner finance teams can centralize HR data and bring all cost components per employee into focus, the better the assumptions will be for headcount growth planning"**

— Bijan Moallemi, Mosaic Founder & CEO

## 1 Understand and analyze how each department works

Proactively collaborate with each department lead to understand their team structure, goals, and hiring plans. Take that knowledge and start to assess headcount-driven dependencies across your business. For example, how does customer count impact your number of customer success employees? What's your ratio of managers to employees? How many QA engineers do you need per developer?

## 2 Set baseline for cost efficiency in each team's headcount plans

Compare department hiring plans against your baselines for hiring efficiency across the entire business. Push back on your partners when their goals start to break your financial model for the business. When appropriate, encourage your team to scale with technology, contract-to-hire models, and other things that don't increase headcount to keep costs down.

## 3 Determine fully loaded costs for employees

Don't stop short at salary and benefits when making headcount plans. Set a precedent to track the fully loaded cost per employee as your company scales. This includes payroll taxes, dependent benefit expenses, signing bonuses, software licenses, performance bonuses, recruiting fees, and real estate costs.

## 4 Focus on goals that are challenging but attainable

You want to make sure that your hiring goals are realistic without setting the bar so low that it hurts growth. Strike a balance between challenging and attainable by factoring in data from your CRM and HR systems to account for the timing of new hires and their ramp times in your projections.

## 5 Reassess your headcount plans quarterly

Gauge hiring performance against business performance and market conditions on a quarterly basis. If you've fallen behind, push your projections out. And remember to maintain close communication with business partners to align on headcount goals and plans.

# CFO TIP:

If meeting your top-line goal is dependent on new sales reps, make sure rep ramp times are factored into your model. To calculate rep ramp, you will need data from your CRM as well as data from your HR system. Figure out how long it has taken for your reps to contribute meaningfully to pipeline from their start date. Bake these timelines into your projections.

# Part 5

## Add Value Through Forward-Looking Strategic Thinking

Series A and Series B startups have an opportunity to set up their finance functions to spend the majority of their time on forward-looking strategic thinking. In the past, record keeping, reporting, and compliance took up so much time that finance leaders had little time to act as strategic partners. But when you establish the finance fundamentals early, you can refocus on guiding your company's growth.

> **"Finance teams need to avoid the trap of over-rotating on traditional, backward-looking responsibilities by taking a more strategic role in the business."**
>
> **— Ajay Vashee, Former CFO of Dropbox**

# Start by automating as much of the reporting process as possible.

This frees up your time to focus on the future. Then, put the technology in place to consolidate your financial data from all of your SaaS tools and start focusing on strategic tasks. A few tasks that will add more value to your business partners than basic financial reporting include:

## 1 Budget Vs. Actual Analysis

Track how the business is trending compared to your original plans. Study inflows and outflows of cash to identify opportunities for greater efficiency and higher growth.

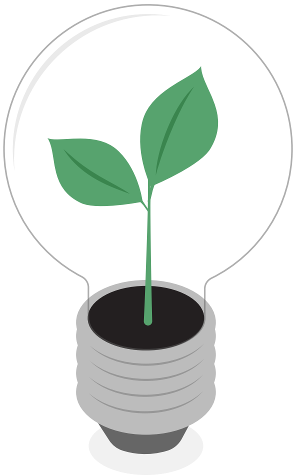
## 2 Scenario planning

Answer strategic questions for your business partners quickly with automated “what if” analyses that compare multiple scenarios automatically—instead of spending hours or days trying to modify spreadsheets.

## 3 Manage both rolling and annual forecasts

Time-strapped finance teams working in Excel often only measure performance on a rolling basis—they compare February to January, March to February, and so on. Rolling forecasts are important. But it’s equally important to ground your financial plans in accountability for your initial assumptions.

The sooner you can focus on these strategic tasks instead of getting caught in the backward-looking reporting cycle, the better off your startup will be. But working manually in Excel and pulling data from across dozens of SaaS tools won’t get the job done. Growth-stage startups need a more automated solution, self-serve solution that makes it easier to maintain finance fundamentals while spending more time on strategic tasks.



# CFO TIP:

The finance team has an ever increasing role in strategy. Try to carve out at least 30% of time to focus on finding strategic insights. This means looking for areas to improve gross margins, diving deeper into unit economics, understanding the marketing funnel and sales close process or finding the right moment to raise additional capital.

# Mosaic — A Strategic Finance Platform for Executing This Framework

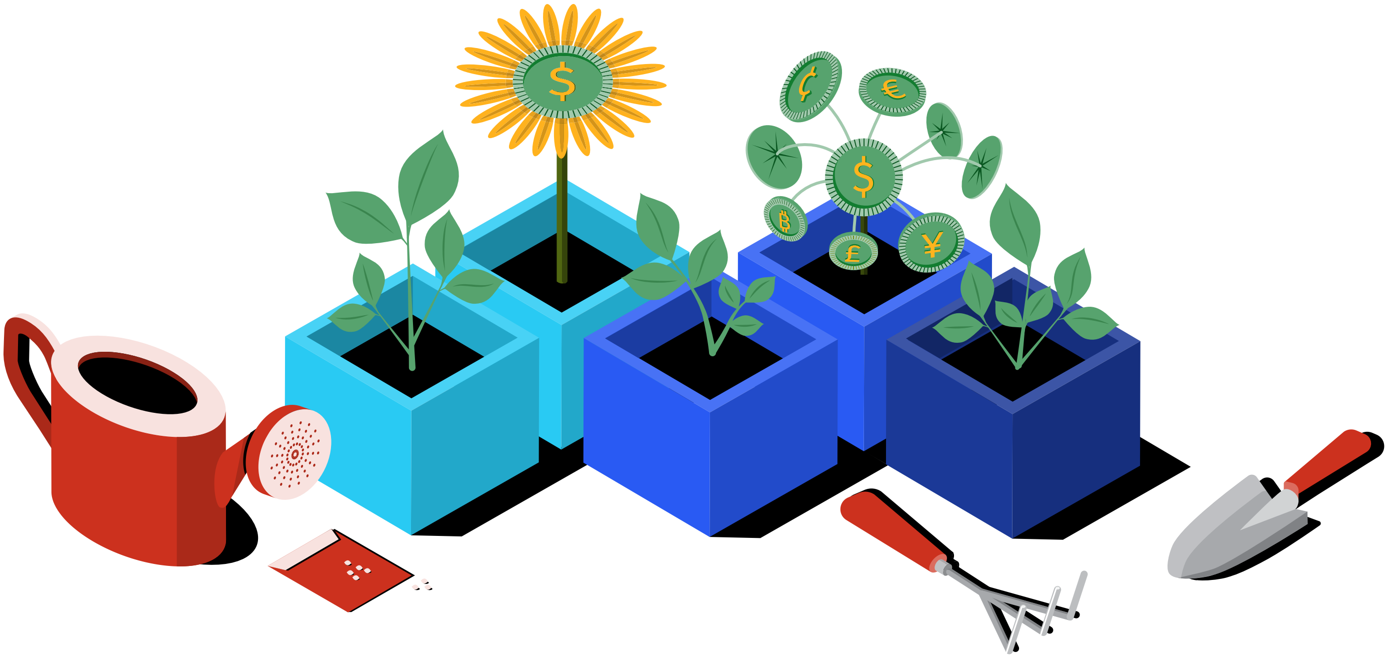
Connecting the pieces above is easier with the right platform in place.

Mosaic was built to be the connective tissue between all your business systems—the technology that enables you to take on any problem standing in your startup's way. It supercharges your role by giving you the tools to analyze financial data, understand the story behind your numbers, and propel the business forward with strategic insights.

Analyze, Report and Plan in Real-Time - all from within one platform.

If you want to get an unfair advantage over your competition by embracing strategic finance as early as possible, reach out and see how the platform works.

## Get a Personalized Demo Today.



# About Mosaic

Mosaic was founded in 2019 by three finance leaders who knew the office of the CFO needed an overhaul. Tasked with supporting business decisions for several companies in hyper-growth, they were frustrated by the slow speed, high complexity and inefficiencies existing tools in the market offered. With this challenge in mind, they set out to build a platform that would address the technical challenges modern day finance and business teams face.

Today Mosaic is deployed by some of the fastest growing companies, helping them align, collaborate and plan for the future.

To learn more, visit www.mosaic.tech and follow us on LinkedIn or join the conversation on Twitter