While the preparation process for an IPO is lengthy and complex, touching nearly all aspects of your business, we have summarized four critical best practices in what follows.

IPO Readiness: Modern Finance Best Practices

1

Establish IT Governance and Processes that Enable Growth

A key consideration in preparing your company for an IPO is to establish specific governance and processes over information technology (IT). This includes establishing a separate and distinct IT function to support your company's systems infrastructure and to formalize policies and standards that govern it. "We particularly see this in technology companies where they have an IT function that is embedded in their engineering or development organization," notes Hobbs. "You need to have an IT function that is completely focused on supporting the corporate enterprise applications infrastructure. Often, that doesn't exist."

Many private companies underestimate the level of support they need from their IT organization to operate as a public company. An independent IT function provides critical support to the company and the finance organization by mitigating weaknesses in systems and processes that may adversely affect financial reporting. Systems, policies and standards help establish your company's financial reporting and control environment by addressing issues such as security, privacy, segregation of duties, and access to information. They also provide the foundation upon which your company's ability to prepare timely and accurate financial reports depends.

Typically, issues arise when there are disparate systems managing processes that impact financial reporting, such as core accounting, sales order entry, and revenue management. These functions may be managed in spreadsheets or use spreadsheets as a mechanism to transfer data from one system to another. The latter may also involve manual rekeying of data. Regardless, manual data transfer between systems increases the risk of errors and fraud. "I would describe it as the risk of data integrity," says Hobbs. "The remedy is a combination of controls on who has access to the data, and processes that minimize the level of manual intervention that is required with respect to that data. For audit purposes, you also need to maintain an audit trail from the general ledger back to the systems from which transactions originate."

A world-class-ERP system can help mitigate many of these issues and enforce processes and governance through the business processes and controls built into the software.

Cloud-based, Tier I ERP systems provide the scalability and functionality needed to having manage larger and more complex companies, at a price almost pre-IPO companies can afford.

“As the CFO of a small business, I’m also involved in other administration activities, such as IT and HR,” notes Steve Van Houten, CFO, The Rancon Group. “One of the things that we needed to do when looking for a new accounting system is do it in a way that did not create a big burden for us, because we wanted to focus on value-added activities.” Van Houten selected an ERP cloud solution from Oracle not just because it helped eliminate IT costs, but also because of the world-class business processes embedded in the software. “When we looked at the core functionality provided in the ERP Cloud solution, we made the decision to change our business processes because we felt that the way that Oracle handled them was better than the processes we had designed ourselves.“

2

Plan for Future Growth

A common mistake that many pre-IPO companies make is choosing a solution that only addresses their immediate needs. As growth brings more complexity, you may need to replace that system earlier than anticipated, but prematurely replacing an ERP system can be very expensive and disruptive to your business. An alternative approach might be acquiring a more robust ERP system that may be slightly ahead of your current requirements, but provides the capacity for future growth. Fast-growing companies should consider adopting a solution that incorporates more advanced financial functionality such as the ability to manage multiple legal entities, as well as and international capabilities such as support for multiple currencies, tax jurisdictions, and the ability to produce reports that comply with multiple accounting standards.

Selecting a cloud ERP system from a Tier 2 provider because of what appears to be a lower acquisition cost may in the long run be more expensive and risky than anticipated. The reason is that Tier 2 systems may have functional gaps that you will have to fill by subscribing to other cloud services from different providers. Combining several cloud solutions in what is referred to as a “hybrid” environment requires complex and costly systems integrations that may adversely impact your financial reporting environment.

> “The ERP cloud system essentially takes away that second tier of accounting systems -- that companies would traditionally start with a lower program, go to a mid-tier program, and then eventually graduate to a bigger program like Oracle. Using a Tier I ERP Cloud solution allows smaller companies to get in earlier and, as a result, takes away a lot of the pain of having to do that second transition.”
>
> **– Brandon Byrne**
> Former VP of Finance, Curse, Inc.

“We see two parallel and related trends.” says Ronan O’Shea, also a managing director at Protiviti. “Companies are increasingly moving to Cloud enterprise applications; and business functions (sales, finance, HR, etc.) are making these selection and purchasing decisions independent of the IT function. If the company’s processes and systems are to scale for growth, there must be a common data architecture and unified end-to-end process designs across all of these systems, including the design of any integration points.” Protiviti recommends enterprise level governance of the systems roadmap, key investments and overall design.

“Companies need to not only assess the cost of a particular ERP system, but all of those other supporting applications that might actually be within the capabilities of a Tier 1 solution,” says Protiviti’s Steve Hobbs. “Another consideration is all of the integrations between multiple systems. They can add considerable cost to the business. So it’s a combination of the total cost of ownership and the increased risk associated with the integration of multiple platforms”.

> “When we looked at other solution providers, it was either some clever workaround that they were trying to use to provide project costing capabilities, or it was some type of bolt-on application. Being a small business, we didn’t want to deal with the integration of bolt-on applications if we didn’t have to.”
>
> **– Steven Van Houten**
> CFO, The Rancon Group

3

Establish a Systematic and Disciplined Financial Close Process

For pre-IPO companies, a critical process is the periodic closing of the books. More rigorous reporting requirements mean the close process must be well documented and executed in a very deliberate and in a carefully managed schedule. It also means the systems that support the company's financial reporting must support proper internal controls to ensure financial data integrity.

When evaluating the close process, it is critical to examine all the activities that comprise it with an eye toward achieving standardization. The key is to establish a repeatable and predictable process, executed in a defined sequence of tasks and managed by a process owner, which is oftentimes the CFO in smaller organizations.

"This may be a significant change from what most private companies are used to. We look at how your systems can be leveraged to automate and accelerate your close process." says Hobbs. "We'll assess areas like the chart of accounts and the systems that feed the financial reporting systems, but we really pay close attention to what your close activities and calendar look like and what is required to increase the maturity of the process. Finally, we look at how long it takes you to close your books and compare that with what you need to do as a public company."

A mature close process helps private companies prepare for an IPO by getting them ready for more rigorous reporting requirements mandated by regulatory authorities. Companies need to file their quarterly and annual statutory reports within determined deadlines — 45 days for quarterly and typically 90 days for annual

reports. A repeatable close process not only ensures you will meet those deadlines, it also ensures you will have adequate time to prepare certain disclosures required by the Securities and Exchange Commission (SEC) and report on the efficacy of your internal controls as required by the Sarbanes-Oxley Act.

> "Forty-five days goes by very quickly. If you're not getting your numbers to stop within five to seven business days after the quarter end, then you're likely to run into some potential issues."
>
> **– Steve Hobbs**
> Managing Director, Protoviti

4

Replace Spreadsheets with Modern Planning, Budgeting, and Forecasting Applications

As a pre-IPO company, part of planning for future growth means needing to review your planning, budgeting, and forecasting processes – especially if these processes are currently maintained using complex spreadsheets. As a public company, more rigor is required to not only conduct these processes with greater discipline, but also to properly set investor expectations by explaining how your company will achieve its growth objectives and deliver reliable forecasts to investors.

According to Hobbs, forward guidance is something investors and analysts pay close attention to, and he stresses the need to have processes in place to reduce the risk of your results falling short of expectations. “You must have the ability to forecast your business and manage investor expectations,” he notes. “You need to have robust planning and budgeting capabilities so that you can drive investment, focus, initiatives, and strategy from an internal standpoint”.

Restaurant Chain Gains Predictive Insights with ERP and EPM Cloud

Minneapolis-based Ovation Brands is implementing a rolling forecast model using its cloud-based planning and budgeting solution, to better predict the impact of marketing promotions, incentives, bonuses and other levers that can support the privately-held restaurant chain’s goal of reinventing itself. “Continuous planning allows us to look forward and have a rolling projection,” notes Ovation CFO Keith Kravcik. “How does the cash liquidity position look? How can we link our strategies and KPIs so they actually tie into bonuses and incentives? Reinventing the stores is our goal, and we’ve told the board we’ll be more predictive to ensure we deliver on that commitment.” In addition to its Planning and Budgeting Cloud service, Ovation is also standardizing on Oracle ERP Cloud to ensure data integrity and security across all of its financial processes.

With increased economic volatility, you also need to be able to adjust your plans often so you're working from the most recent information and be able to update your budgets accordingly. These requirements will likely compel your business to re-assess the effectiveness of manual and error-prone, spreadsheet-based processes because they are so time consuming and slow. "Here again you need the ability to scale," concludes Protiviti's Hobbs. "With today's technologies, you can get a solution that is integrated with your other applications and you can accomplish in days what used to take weeks and do it in a much shorter cycle. And for fast-growing businesses, that agility and first-mover advantage is really the hallmark of success."

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