When is the right time for a tech startup to hire a CFO?

A report by Cliff Scheffel & Jeff Epstein

BACKGROUND

For the past 25 years, I have worked with early stage, venture-backed startups in a variety of technology fields as a search consultant. Over this time, the environment has become increasingly competitive and complex, but one constant has been the need for management talent who can deal with the chaos, focus on the priorities and create a sense of order. **One of the keys to getting this equation right is a qualified CFO.**

Recently in a conversation with Jeff Epstein, an Operating Partner with Bessemer Ventures and former CFO of Oracle and DoubleClick, we reflected on how often we are asked the question, "When is the right time for a startup to add a CFO to the Team?" This question comes from CEO's, Venture Investors, and others within the venture talent community.

To help answer this question from an analytical point of view, rather than opinion, we decided to dig into the data and review 25 recent CFO searches. We found that companies typically hire a CFO for the first time, on average, when they reach:

- 100 employees
- Revenue of $25m
- Revenue growth rate of 111%

While not specifically related to the timing of the CFO hire, we found:

- The CFO was awarded, on average, stock options of 1.2% of the company.
- 16 of the 25, or 56% received 100% stock acceleration for Change of Control, double trigger.

RESULTS

Key Metrics for Companies Hiring Their First CFO

# of Employees:

Low:	25
25th percentile:	70
Median:	100
Average (Mean):	157
75th percentile:	130
High:	750

Revenue (million $):

Low:	$2
25th percentile:	$12
Median:	$25
Average (Mean):	$29
75th percentile:	$33
High:	$150

Revenue Growth Rate:

Low:	10%
25th percentile:	50%
Median:	100%
Average (Mean):	111%
75th percentile:	120%
High:	400%

CFO Compensation (# of stock options as % of fully diluted shares):

Low:	0.9%
25th percentile:	1.0%
Median:	1.25%
Average (Mean):	1.16%
75th percentile:	1.25%
High:	1.5%

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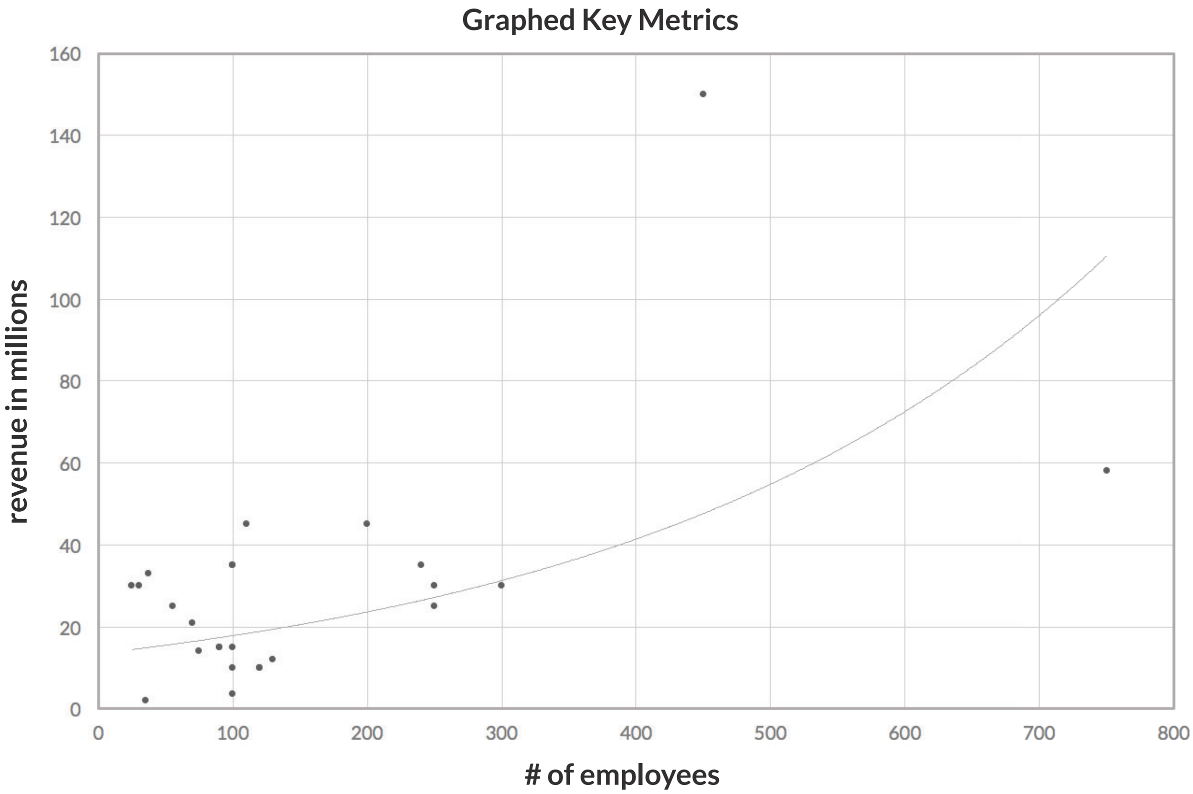

Key Reasons Companies Hire Their First CFO

Reason		# of Companies
1.	Infrastructure build out of company	22*
2.	International expansion	8
3.	IPO preparation	6
4.	Business partner to CEO/metrics/resource allocation	5
5.	Growth	5
6.	Private financing	5
7.	HR & recruiting	4
8.	Board mandate	3
9.	Complexity	3
10.	FP&A	3
11.	Legal	3
12.	Operations	2
13.	Acquisition integration	1
14.	Costs/margin improvement	1
15.	Internal controls	1
16.	Purchasing/vendor relations	1
17.	Real estate	1
18.	Sales compensation	1

**defined as business and operational systems, policies, procedures and controls to accommodate growth*

CONCLUSION

Many readers may find these results a bit surprising and feel the numbers are on the "high" side believing it is better to bring in the CFO earlier for a variety of very good reasons. The flip-side of this issue is that it may be difficult to get the quality of candidate desired at an earlier stage. If a hire is made at this point, there can be a "flight risk" especially if the company's growth rate slows. Naturally, there are certain company dynamics that dictate the need to have a qualified CFO on the team at an earlier stage. These may be situations where the role the CFO needs to play is more externally focused on fundraising, M&A activities or complex regulatory issues as opposed to building infrastructure.

A comment from many CEO's I have worked with who hire their first CFO, is they have a greater appreciation of the benefits the CFO adds beyond just the numbers.

For years when I have been asked the question of when a company should add a CFO, the response has been, "when revenues are $20m to $30m, and there is a healthy growth rate of 50% or more." Hence, the results found through this study are not surprising. The next question is "how might a company manage the finance function if they are below this level"? Based on my experience, the most typical and effective approach is to:

- Hire an experienced Controller or VP of Finance with an accounting background,
- And supplement the internal staff with a consulting CFO (The consulting CFO can play an important role performing duties such as: defining metrics, analytics, preparing the annual plan, participating in Board meetings and financing efforts.)

No two companies develop in the same manner and at the same rate. The results of this study are representative of most VC backed tech startups and at a minimum, set the ground work for discussion within the Company and the Board.

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Notes

Companies in the sample:

SaaS	*14*
Tech enabled Service	*5*
AdTech	*4*
Consumer Electronics	*1*
Hardware	*1*

1. *Revenue is total revenue or Annual Recurring Revenue (ARR) based on the run rate defined as the current quarter bookings or revenue for non- SaaS company's times four quarters.*
2. *Number of employees, excluding contractors.*
3. *Revenue growth rate. In most cases, it was possible to measure the actual increase in bookings/revenue year-over-year beginning with the quarter of the CFO hire for the forward 12 months. If the CFO had been on board for less than one year, the growth rate was calculated by the rate of increase of bookings/revenue for the portion of the year that had been completed and annualized.*
4. *All data is based on the start date of the CFO, not the date the process of hiring the CFO commenced.*

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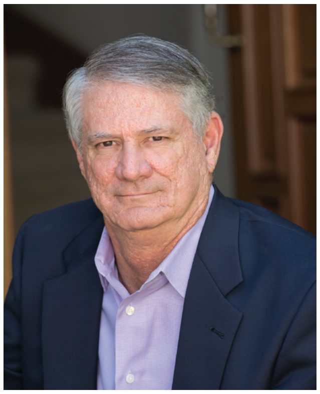

Cliff Scheffel

Cliff is a partner in the technology practice at Lancor, focusing on a wide variety of sectors including software/SaaS, e-commerce, adtech, media, consumer internet and semiconductor. Cliff brings expertise in serving venture-backed operating and investment companies to Lancor's national CFO practice. He has completed hundreds of CFO searches for VC backed companies and over 30 CFO/Administrative Partner searches for VC and PE investment firms.

Prior to Lancor, Cliff was a founding partner of KarrScheffel, LLC, and previously served as Managing Director at PricewaterhouseCoopers in Northern California. While at PwC he was a part of the Venture Services Group serving the search needs of many early stage venture-backed start-ups. Earlier in his career, Cliff was a project manager for Southern Pacific Development Company where he managed the development of several commercial properties and as a principal has developed several residential projects.

Cliff earned his CPA at Deloitte and Touche after graduating from the University of San Francisco. He has been an active leader in several community organizations, including the Walnut Creek Contra Costa Council leadership development programs, and the Education Foundation of Orinda.

Jeff Epstein

Jeff Epstein, an Operating Partner in Bessemer's Menlo Park office and the former CFO of Oracle and DoubleClick, works with Bessemer portfolio company CFOs and CEOs to share and implement best practices.

He leads the Bessemer Venture Partners CFO Advisory Board, where over 50 BVP portfolio company CFOs meet in person and online to help each other learn and improve their effectiveness and performance.

He specializes in marketplaces, B2B cloud software and advertising technology companies. He teaches the Lean Launchpad class at Stanford University's Graduate School of Engineering with Steve Blank. He serves on the Boards of Directors and Audit Committees of Kaiser Permanente, The Priceline Group, Shutterstock, Global Eagle Entertainment and several private companies. He is the former Executive Vice President and Chief Financial Officer of Oracle, one of the world's largest and most profitable technology companies, with a market value of over $150 billion. Prior to joining Oracle, Jeff served as Chief Financial Officer of several public and private companies, including DoubleClick (sold to Google), King World Productions (sold to CBS) and Nielsen's Media Measurement and Information Group. Earlier in his career, he was an investment banker at The First Boston Corporation. He holds an MBA from the Stanford University Graduate School of Business, where he was an Arjay Miller Scholar, and a BA from Yale College, where he graduated summa cum laude, Phi Beta Kappa.