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For years, CFO publications, conferences and networking events have trumpeted the need for CFOs to move from being the top accountants in a company, to playing a more strategic executive role in driving corporate performance. “Strategic” implies both an ability to influence future performance, as well as a collaborative management role. By contrast, the traditional CFO has focused on tracking performance that has already happened and at best, working towards cutting costs and expenses going forward.

Many CFOs have not played a fully strategic role in their company because by relying solely on internal data and accounting of past performance, they do not have the tools necessary to influence strategy adequately. Often, the CFO’s voice is just one more voice in what can be a chaotic decision making process around determining the company’s budget and strategic performance goals.

### **Benchmarking Provides the CFO with a Strategic Tool – External Data – to Influence the Numbers**

External benchmarks and the benchmarking process overall, give CFOs powerful tools to influence corporate performance goals in a way that is both strategic and collaborative. External benchmarks help identify areas where a company could be more efficient with its resources, and also where the company is more efficient than its peers and therefore should continue to support and perhaps expand investment. Moreover, external comparisons of market leaders can help identify efficient business model changes, which are a given in today’s dynamic business environment. From a collaborative perspective, external benchmarks take much of the conflict out of the decision making process by providing data-based context for difficult business decisions. Financial comparisons provide validation and credibility to corporate performance targets for the executive team. When the senior management team feels the numbers are fair and achievable, it typically leads to better target achievement.

Without good quality benchmarks, developed with current data, everyone will predict the future based on their past experience, which may or may not relate to the current company, the current environment and current best practices. Without external data, the CFO is relegated to tracking and presenting past performance and making assumptions based on previous performance. In this way, future performance assumptions will be based on a trend line determined by the past and aiming towards the same performance. However, today's business world assumes constant performance improvements, rather than more of the same.

### **Good Quality 3<sup>rd</sup> Party Data versus Anecdotal Benchmarking**

Companies have often relied on random surveys of industry benchmarks, or anecdotal information collected by calling peers for comparison information. These information sources provided some context for setting corporate performance goals, but typically the data was an aggregation of disparate companies and business models. An industry survey of the software industry might average financial data from Microsoft and a \$1,000,000 start up and several hundred other companies with very different business models, many of which might not really be "software" vendors. Company ratios will obviously vary tremendously between a \$74B public corporate giant founded almost 40 years ago and an early stage company founded 3 years ago. Similarly, gathering anecdotal data based on one's personal network is useful to provide context and to learn about best practices, but does not develop good quality data, and also does not have the credibility with other executives as 3<sup>rd</sup> party, external data sources that use established benchmarking methodologies. And it takes a lot of time to gather anecdotal information from peers.

In the software industry, good quality business benchmarking is particularly important given the wide variety and dynamic nature of software business models which range from on-premise software sales, software-as a service (SaaS) subscription-based sales, transaction fee based revenues, and revenue models which are a mixtures of all of the above. Not only do the benchmarks change based on the business model, but some of the critical metrics for determining corporate performance will be different based on the business model. SaaS companies track subscription numbers, conversion and renewal rates, plus calculations of customer value and profitability. On-premise software models focus far more on pure revenue recognition and revenue to expense ratios. Transaction fee-based models typically track numbers of customers and the revenue processed by customers. Open source and freemium models track downloads, users and other metrics to quantify the potential size of the market and potential for conversion to paid customers.

### **Getting the Context Right**

*"If you live to be one hundred, you've got it made. Very few people die past that age," George Burns.*

Benchmarks are most useful when the business context being compared is clearly understood. Microsoft's expense ratios will be far different, given their billions in revenue and 40 years in the market, versus an early stage company with small revenues that is spending a far higher proportion in sales and marketing to identify their target customer and establish their business. This is true even if the startup is selling in the same market as Microsoft, or selling competitive products. Or take the example of SaaS giant, Salesforce.com. Many software CFOs tell me that they always have to compare themselves to Salesforce's metrics, even though Salesforce is a \$2.3 billion public company with a market capitalization of over \$15 billion. David didn't beat Goliath by trying to emulate Goliath, but by being the most efficient and focused with the resources that he had at the time.

### Defining Your Peers

CFO's have greater credibility in influencing the numbers when using benchmarks based on credible peers. We find it more useful to compare your company to peer groups made up of companies at a similar stage of growth with similar business and sales models. In any given market, there will typically be competitors that are far larger, and some that are much smaller. Some companies will sell to the same customers but with a different model. Comparing your performance metrics with companies at very different stages of growth is unfair and will not give you an indication of where you could be using the same resources more efficiently. And benchmarking against your peers can also highlight areas where you are using your resources **more** efficiently than similar companies, and therefore should support and perhaps expand investment for even greater results.

**Benchmarking is a great, collaborative management process, not just information.**

Finance in general and CFOs in particular are often tarnished with the brush of being the company expense managers and unfairly wanting to increase revenue with fewer resources. By involving the rest of the company in the benchmarking process from the beginning, even if only by sharing and reviewing external data with key executives, Finance can be seen as

providing valuable, neutral information to support a collaborative, data-driven process around complex, strategic decisions.

### **A Best Practices Benchmarking Example**

One of our clients, Rally Software, a fast growth, venture backed agile software developer, incorporates benchmarks consistently to drive strong corporate performance and management efficiency. They have participated for a number of years in the OPEXEngine and SIIA annual software and SaaS benchmarking. The Finance organization uses the benchmarks to support the regular budgeting and strategic planning process, by delivering a benchmarking presentation to each executive department of the company, at the start of the annual budget process. Each senior executive is asked to develop a budget in the context of peer benchmarks, and to present their budget and target proposal to the executive team with a discussion of why they feel they should be above or below the peer comparison for their department.

### **Benchmarking Takes the Friction out of the Budget Process**

Rally's executive team says that they find the budgeting and strategic planning process to be quick, efficient and collaboratively fact-based, as compared to their experience at other companies where it typically can be very chaotic and disruptive. In many companies, the budget process is long and drawn out, taking precious time away from daily focus, especially at the end of the fiscal year, to the point where everyone agrees to the numbers just to get the process over. In Rally's case, executive management has even said they enjoy the budget process as they feel personally involved in determining how best to use all the company's resources, and beat their performance. And once management has committed to a budget plan, Rally's finance department uses the 3<sup>rd</sup> party benchmarks to set the context for efficient board approval. Overall, Rally finds using outside benchmarks extremely useful to drive an efficient, data-driven budgeting process with strong executive and board commitment to the corporate goals. All it took was to provide good quality, 3

<sup>rd</sup> party benchmarks, share them with the management team and ask that budget requests be based on the context provided by the benchmarks.

### **Critical Tool for CFOs to Improve Corporate Performance**

Benchmarking is not a blueprint for how to run your business. We always advise companies in our practice that you don't always have to beat all the peer benchmarks, it is just important to know how you stand in comparison to your peers on critical metrics and make decisions based on that context.

CFOs who use good quality, 3<sup>rd</sup> party data to play a more strategic and collaborative role in setting corporate targets, will increase corporate value. Many companies, especially in the fast moving software industry focus purely on just growing as fast as they think they can, without having the time to improve efficiency or decision-making. The most successful companies are extremely metrics and comparison driven. Compare growing a software company to developing world class athletic achievement: the best athletes constantly compare and analyze their peers' numbers. By doing so, athletes consistently improve their performance.

Usain Bolt wins at the 2012 London Olympics

Shouldn't your business do the same? There are many good sources of data available today, and it will only get better. It doesn't take much time to get started benchmarking and sharing the benchmarks. It is a critical tool to being a strategic CFO who influences the numbers, instead of just understanding the numbers.