2023 BENCHMARK REPORT:

New data about finance headcount in SaaS companies and online marketplaces

What The Notorious B.I.G. got right about finance operations & what finance teams can do about it

Ledge

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As businesses scale, their finance operations begin to break

For many businesses just beginning to scale, finance tasks related to payments, reconciliation, and cash management are pretty straightforward.

They go smoothly. No one thinks about them.

But as the business starts to ramp up, the challenges begin to multiply.

Finance teams are suddenly faced with:

1. A higher volume of payments and transactions
2. An increasingly fragmented stack of additional payment service providers, banks, billing solutions, new internal databases, and an ERP

Not only are finance teams now responsible for massive amounts of data; this data is fragmented across separate silos that are totally disconnected from each other.

These two factors feed each other in a spiraling loop of compounding complexity, and it can happen so quickly that the workload for finance teams increases exponentially.

What was once no big deal for finance teams becomes an overwhelming burden that grinds operations to a halt, sometimes practically overnight.

For finance teams, it's just like the Notorious B.I.G. said: **"The more money we come across, the more problems we see."**

> *"In finance, there are step functions of complexity: volume of sales, first audit, IPO prep, etc. During these times, people costs can explode if you aren't putting the right tools and people in place. It can become a merry-go-round of ever-increasing costs that you can't get off of."*
>
> OnlyCFO, creator of the popular newsletter OnlyCFO's Software World

Most finance operations are managed manually in Excel

Most finance systems and processes haven't changed in decades, and finance professionals overwhelmingly rely on Excel to manage their finance and treasury operations – downloading datasets from here, uploading the numbers to there, normalizing it in spreadsheets, and then trying to automate what they can with VBA scripts and X-LOOKUPS.

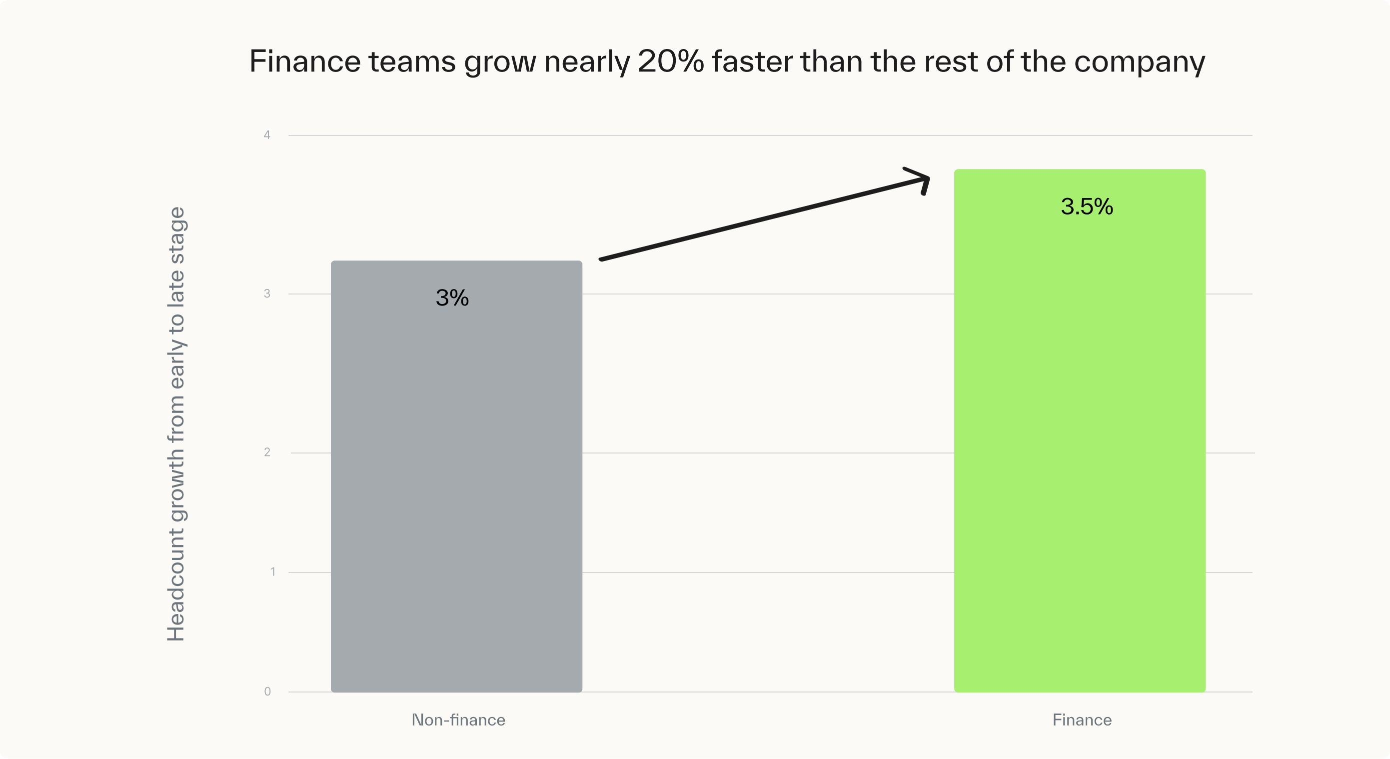
In a recent EY survey, 62% of CFOs acknowledged that their closing process happens manually, and CFO.com reported that finance teams spend 40% of their time processing transactions.

To better understand the impact that a company's growth has on the complexity and cost of its finance operations, we calculated the finance department staffing ratios of 120 private SaaS companies and online marketplaces in the US, from early to late-stage funding.

Here's what we found.

01

Finance teams grow nearly 20% faster than the rest of the company



Source: Publicly available data analyzed by Ledge

As high-growth SaaS companies and marketplaces mature from early stage to later stage, the headcount of their finance team grows at a rate of 3.5x, while all other combined functions of the company grow at a rate of 3x.

That means that as companies scale, their finance teams grow more quickly than all other teams combined in the rest of the company.

Our take #1: Finance work becomes more complex as businesses scale

We believe that the finance headcount growth shown in the data at least partially reflects the growing complexity of a business' finance operations.

Not only do transaction volumes increase when a company is successful, but the payment stack also tends to sprawl into a fragmented smorgasbord of payment processors, ERPs, payment processors, databases, wire transfers, and more.

When combined, these factors spell an exponential increase in complexity and workload for finance teams, who must devote more headcount to the same basic finance operations. And chances are, these teams are still understaffed.

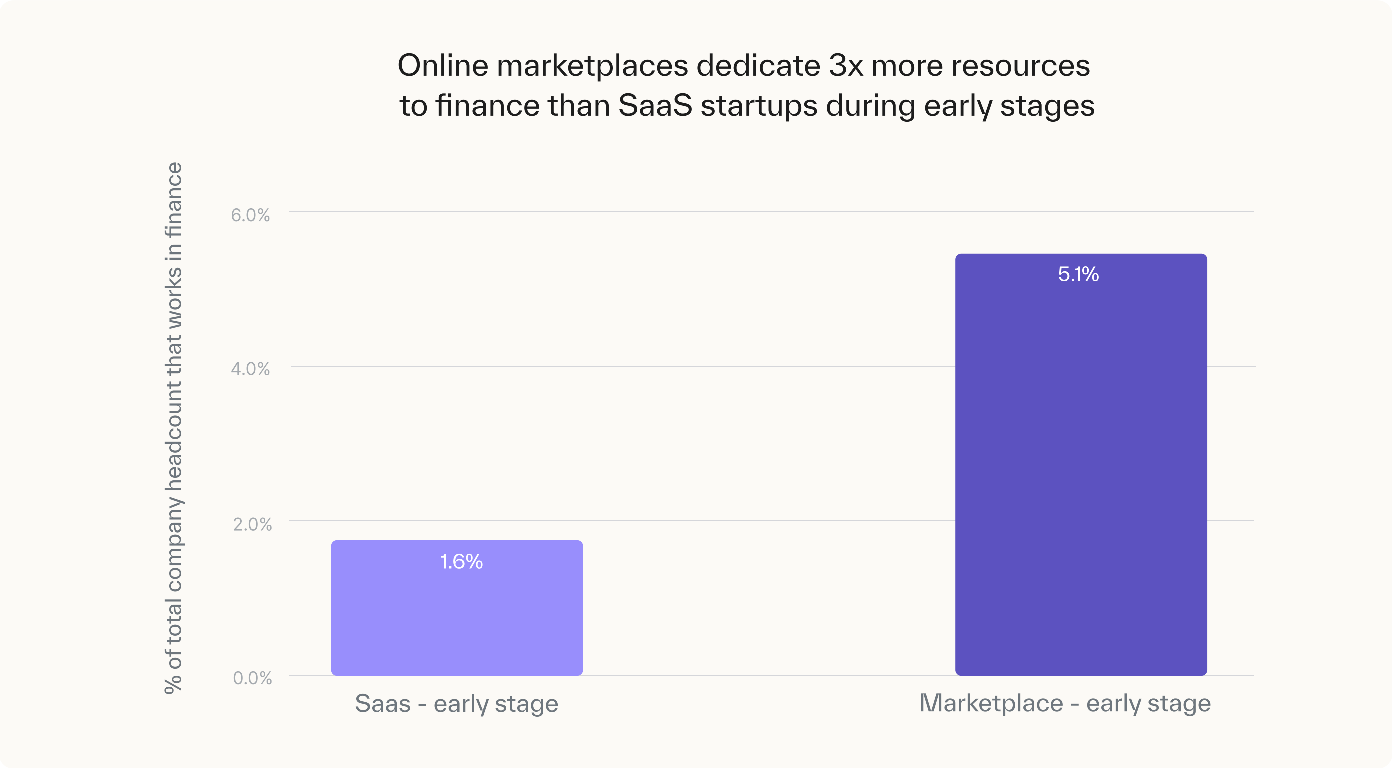
Of course, FP&A, treasury, payroll, and tax teams grow in size as the business scales, so that can explain the growth in headcount, too.

As The Notorious B.I.G. said, more money, more problems

> *If Notorious BIG once said, "Mo Money, Mo Problems,"*
>
> *And P&L Diddy said, "It's all about the Benjamins,"*
>
> *Then if you ask Jay-Z he'd say:*
>
> *"Complexity in finance operations increases geometrically with growth. Being a step or two ahead is critical. You can't get too far ahead though, or you will bog the business down in process too soon. It's a fine balance.*
>
> *My advice would be:*
>
> *Prioritize transaction processing. It needs to be slick. When your AR, AP, and cash management ceases to function, you have no business.*
>
> *Protect the integrity of your cashflow forecasting at all costs.*
>
> *Make sure you are ready to scale your manual processes quickly when needed. Don't get caught short.*
>
> *Automate as soon as you can, but only once you know what you are automating."*
>
> *OK – that last one wasn't Jay Z, it was me, but still .... It is easy to lose yourself and end up with 99 problems.*
>
> *Good CFOs will fight the power, regulate complexity, and make sure they don't get hypnotized by juicy growth.*
>
> Secret CFO, creator of the popular newsletter CFO Secrets

02

Finance teams in early-stage marketplaces are 3x bigger than those in SaaS startups



Source: Publicly available data analyzed by Ledge

The data shows that full-time finance employees of early marketplaces make up an average of 5.1% of total headcount in early stages, compared to 1.6% in early-stage SaaS companies — that's three times bigger.

Our take #2: Finance operations in marketplaces are complex from day one

It’s not news that marketplaces face great challenges in terms of their finances: their transaction volumes are usually bigger from the get-go, and the flow of their funds is highly complex and multi-faceted.

What the data suggests, and what matches what we’ve discussed with customers, is that finance teams in marketplaces face incredible challenges from the very start.

In terms of baseline operating costs, marketplaces spend more than 3x more than SaaS companies on finance headcount from the earliest stages just as the cost of doing business.

“

Finance teams at companies who rely upon business models where they are the middle-man, such as marketplaces, platforms and aggregators, are stressed from multiple angles.

They have to build a billing, collection, and payout infrastructure to serve the needs of both the supply side and the demand side, plus internal stakeholders. This can become increasingly complex when there are payments being made to multiple parties on a single transaction.

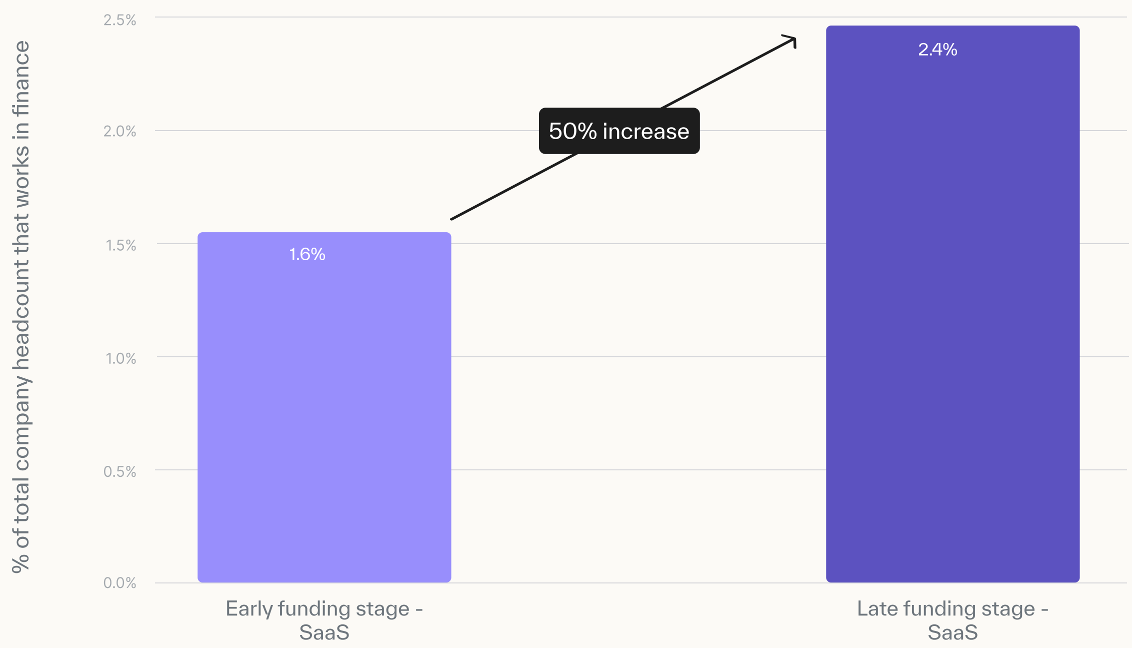
Operational finance agility for marketplaces is a true competitive advantage and core to the business model’s overall success.”

CJ Gustafson, CFO of B2B marketplace PartsTech, and creator of the popular newsletter Mostly Metrics

03

In SaaS companies, finance teams get 50% bigger in later stages

Finance headcount at SaaS companies increases by 50% as the business matures



Source: Publicly available data analyzed by Ledge

While finance teams at marketplaces are large from the start, SaaS companies see this growth in later stages. Our data shows that the percentage of full-time finance employees in SaaS companies rises from 1.6% to 2.4% on average between early and late stage – that's an increase of 50%.

The growth of finance teams in SaaS companies is particularly fast compared to the rest of the business; while finance teams in SaaS companies grow 4.9x as the business matures, all other functions grow at a rate of 3.3x.

Our take #3: For SaaS companies, the pain of finance complexity sets in at later stages of growth

Our data suggests that SaaS companies experience the pain of finance complexity in later stages of growth, leading their finance teams to scale accordingly.

While we believe that the pain of payments and managing a high volume of transactions is a big factor, there are many additional functions that would grow as the business scales: FP&A, treasury, payroll, tax... the list goes on.

Either way, this supports Jason Lemkin's assertion that when SaaS companies reach $25-$30m in ARR, the momentum of their success becomes unstoppable.

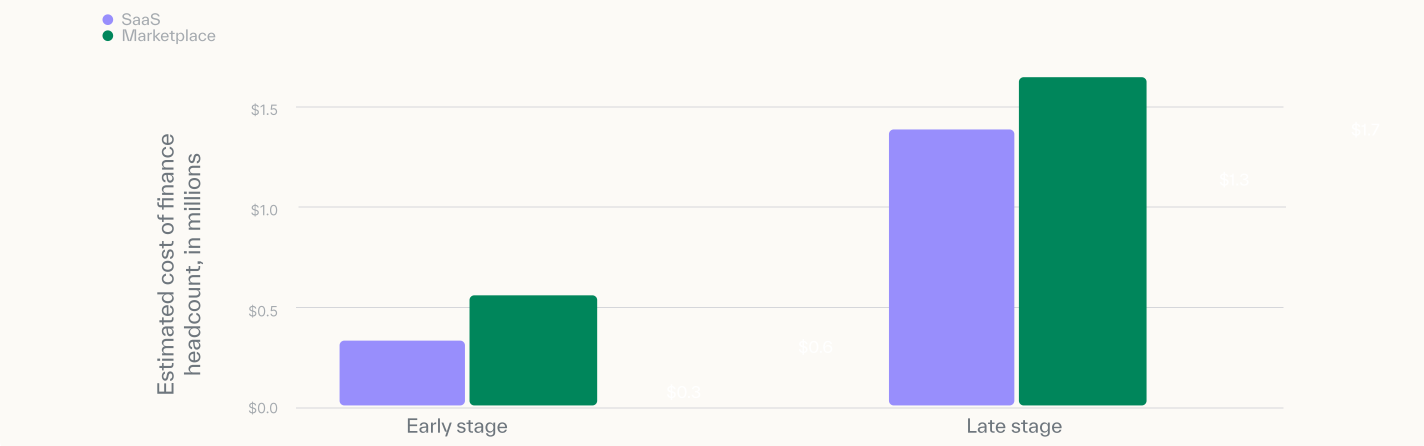
The data suggests that the collateral damage of that success is that the workload and complexity increase exponentially for finance teams.

> *During early stages of growth, the company's priority is achieving product market fit while not running out of cash.*
>
> *At later stages, you have the luxury of worrying about financial controls and financial reporting. That's why teams usually find themselves in "react" mode around Series C or after.*
>
> *All that said, that's not an excuse for not developing good financial hygiene at earlier stages. It's very easy to implement software solutions that provide detailed visibility into your financial health overall."*
>
> Howard Katzenberg, Founder and CEO of Glean.ai, former fintech CFO

04

Finance headcount costs increase by 3.5x as businesses mature

Finance headcount costs increase by 3.5x as businesses mature from early to late stage



Assumption: Average FTE finance salary is $120K fully loaded
Source: Publicly available data analyzed by Ledge

Online marketplaces employ an average of 5 full-time finance employees in their early stages and 14.5 in later stages, while SaaS companies employ an average of 2.1 full-time finance employees in their early stages and 10.5 in their later stages.

Assuming that the average fully-loaded salary of a finance employee is $120K a year and stays static as the company grows, that means that finance headcount costs increase by nearly 3.5x as both marketplaces and SaaS companies mature from early to later stage.

Our take #4: CFOs need new tools to work more efficiently

Finance operations are mission-critical processes that are the engine of every business — there's no question that you need the necessary resources in place to stay compliant and in control of your books.

Without any real alternative to manually managing finance operations in spreadsheets, increasing finance headcount has been a decision that finance leaders have been forced to make.

Fortunately, times have changed and finance leaders now have more and better options. Automated technology is available today that, with the right processes in place, enables finance teams to scale efficiently even when their volumes and complexity increase.

This is especially critical in today's economic climate where everyone is focused on cutting costs and doing more with less.

> *"An Excel-based system might be appropriate in the very early stages of a startup where the operations are limited and the focus is on building the product.*
>
> *However, it stops working efficiently when the company enters a growth phase, which often involves an increase in transaction volumes, hiring employees, and acquiring customers at a rapid pace.*
>
> *The transition to more robust financial management software becomes a necessity at this stage to streamline operations and ensure scalability."*
>
> Aleksandar Stojanović, Fractional CFO for B2B SaaS startups

When it comes to finance operations, everyone’s been swimming naked

Warren Buffet has famously said, “Only when the tide goes out do you find out who’s been swimming naked.”

You often don’t appreciate the risks that businesses are taking until they’re tested by adverse conditions, and today’s market fits the bill: inflation, high-interest rates, and anxiety over a looming recession have businesses scrambling to cut costs and focus on efficiency.

It’s clear that when it comes to their finance operations, businesses haven’t been fully clothed in a long time. There are a few factors to consider when thinking about the wider context of these findings:

1. G&A spend is under a lot of scrutiny

G&A functions such as finance, IT, and HR are under a tremendous level of scrutiny these days. Because they are not revenue-generating business activities, boards and investors expect G&A teams to be as streamlined and lean as possible. While finance teams are still overworked and understaffed, more than ever, they're expected to do more with less.

2. There’s an acute shortage of accountants

Businesses are relying on headcount to solve their finance operations challenges just as there’s an unprecedented shortage of accountants.

The number of CPA candidates has dropped to the lowest it's ever been, and 87% of businesses say that they find it increasingly hard to secure the talent they need for general accounting.

That means that while demand remains sky-high for accountants just to keep the business running, the amount of time, energy, and resources that go into recruiting and retaining these precious resources is extensive and expensive.

3. Manual labor is error-prone, incurring significant downstream costs

Manual processes are expensive, and in more ways than you might think. While our data shows the direct cost of financing finance teams’ headcount, the total costs of manual processes are actually far greater.

When dealing with an extremely high volume of data that’s siloed in different systems, it’s far more likely that teams will make formatting errors in spreadsheets or let issues slide totally undetected, resulting in material losses.

Beyond these immediate losses, a payment error impacts nearly every department in your business on some level, incurring extra costs in customer support and operations, and potentially damaging a customer relationship.

As customer acquisition costs go up and LTV goes down, there’s just no room for inefficiencies and extra costs like these.

The path forward: Proving the Notorious B.I.G. wrong

A business' success shouldn't spell inefficiency, mayhem, and mountains of work for finance teams.

The Notorious B.I.G. is right only because while the business landscape has changed, finance teams have relied on the same outdated manual processes for decades – namely, working in Excel.

There are many valid reasons why finance professionals love Excel:

- It's unbelievably versatile
- It's a universal standard that everyone knows everywhere
- It's tried, tested, and true, and thus feels low risk

But above all, we think that finance pros are loyal to Excel because it's something they can implement and manage on their own without a lengthy chain of approvals or heavy reliance on external resources.

The only tools available to finance teams until now have largely been enterprise systems that require R&D or IT teams to devote months of time to integration and implementation.

The products take a long time to show value, and many finance folks perceive them as high-risk investments.

The other alternative has been building an automated system in-house, which also tends to be a very long, intense, and expensive process that's an inefficient use of engineering resources and rarely produces the results that finance teams really need on a day-to-day basis.

Fortunately, the market is really beginning to change and step up.

There's now a new crop of solutions that are built specifically for finance teams that they can configure, implement, and operate on their own. **And they are specifically designed to solve the exact challenges that finance teams are facing today so that they can:**

- Manage payment complexity
- Automate manual reconciliation
- Gain real-time financial visibility
- Ensure the accuracy of their financial data
- Manage cash across multiple bank accounts
- Focus on strategic and value-adding tasks

Even while relying on manual methods, finance teams can and should focus on building strong and scalable processes early on so that when the time comes, they can implement the tech into their existing workflows.

Ask yourself:

- Where are you lacking visibility the most?
- What big ticket items are worth examining more closely?
- What high pockets of value can you focus on and optimize?
- What repetitive and labor-intensive tasks could be automated?

There's no question that finance has been neglected by the market and that times today are tough.

But it's a very exciting time for the CFO tech stack, and if you're a finance leader at your business, there's never been a better time to look for systems that actually meet your needs.

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*Methodology: We identified 120 representative companies across various stages of capital financing in equal proportions across SaaS and online marketplace startups. The companies were specifically selected to be representative across industries, geographies, and scale. Finance department staffing ratios were determined using publicly available data.