Payhawk

2023 Edition

A guide for CFOs and Founders

How to demonstrate robust cash flow control post VC funding

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Introduction

Squeezing every bit of ROI possible from supplier relationships, SaaS tools, and business services has become increasingly crucial for companies in today's competitive business environment. And effective spend management is a critical component of this process. If leveraged correctly, it can help optimise costs, minimise vendor risk, and drive better, more strategic decision-making.

The growth of the spend management software market speaks for itself, with a valuation of $19 billion globally in 2022 (and expectations to reach over $21 billion during 2023). In fact, the outlook for the spend management software market sees the sector expected to achieve a CAGR of 11.9% over the remainder of the decade, reaching a total value of $46.5 billion by 2030.[1]

As is often the case, fast-growing scaleups are ahead of the curve when it comes to automation and as such they are often early adopters of smart technology, like spend management software. All-in-one spend management is invaluable for helping scaleups, not only to curb costs, but also to demonstrate good unit economics, strong cash flow control, and focus on profitability.

Now more than ever, scaleups can't rely on topline growth and must ensure they know which levers to pull to become more profitable.

Chapter 1.
What should CFOs and Founders prioritise when it comes to cash flow?

The COVID-19 pandemic has significantly affected how companies handle their finances. While some businesses have seen a partial recovery in revenue and growth, many have had to reassess payment terms with suppliers and customers. A notable consequence of reduced sales and a challenging economic climate is the impact on cash flow, particularly for new businesses.

CFOs and founders often face the challenge of seeking investment to drive revenue growth while struggling to maintain sufficient cash flow (and monitor and control burn rate). Good cash flow management (even in a fluctuating market) is crucial for startups to sustain their operations and for scaleups to keep investors happy. Even the best products and services and a strong financial performance can't outrun an out-of-control burn rate.

Venture Capital (VC) investment is a high-stake undertaking meaning that investors seek companies with a clearly defined path to revenue generation, profitability, and high margins. And once they've invested they expect to see good control of cash flow, gross profit, net burn, and runway — with no nasty surprises.

"Metrics such as customer and revenue churn, net revenue retention, customer acquisition cost, customer lifetime value, and burn multiples are also among standard insights into the company's growth health"

Mehmet Atici
Early Bird Digital East Investors

>_ EARLYBIRD

Investor relations: Key metrics in a nutshell

Another reason founders need to engage in responsible spend management procedures is to aid in the company's perception by external investors. Most startups will require such external investors to fund their operations, with venture capital funding reaching $200 billion in 2022.[6]

Investors will have an ongoing interest in the ability of a company to generate positive cash flow, as this is a significant indicator of financial stability and the potential for revenue growth and profitability. And CFOs and founders must be able to demonstrate sound cash flow management to stakeholders.

Yusuf Özdalga of QED Investors says, ***"we expect founders to have a strong grasp of their unit economics, show how the product makes money, and demonstrate customer acquisition and direct marketing costs. We realise that the answers may change over time, but we expect the founder to be able to share reasonable assumptions about the future (backed up by data and market insight)."***

The sound management of cash flow thus plays a major role in developing and nurturing strong relationships with external investors, which can help attract more investment in what becomes a virtuous circle.

We expect founders to have a strong grasp of their unit economics, show how the product makes money, and demonstrate customer acquisition and direct marketing costs.

Yusuf Özdalga
QED Investors | QED INVESTORS

Liquidity: Managing working capital and boosting expansion

Retaining enough cash flow to meet immediate operational needs is always a priority for scaleup CFOs and founders. VCs and investors want the founders to keep as much equity as possible as the company grows, which means that many such enterprises face liquidity issues.

Some scaleups raise liquidity via stock sales, loans, or credit lines. But these may not be available to all small businesses, startups, and scaleup enterprises. Research by U.K. challenger bank Cashplus found that 65% of new U.K. businesses are refused credit, resulting in a £6 billion funding gap.[3]

"We understand the difficulties faced by scaleups when it comes to seeking finance. First, they must be able to access funds from multiple sources to mitigate risk. And second, they must demonstrate their ability to manage and monitor their cash flow in real time, and respond swiftly and adapt as needed," Hristo Borisov, CEO of Payhawk, says. ***"At Payhawk, our credit offering helps many growing businesses avoid single-thread risk. And the emphasis we place over spend visibility clearly indicates to investors that the business is committed to handling any investments prudently."***

Scaleups need a diverse set of sources of liquidity. From grants and partnerships to loans and credit lines — one source alone won't be enough.

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At Payhawk, our credit offering helps many growing businesses avoid single-thread risk. And the emphasis we place over spend visibility clearly indicates to investors that the business is committed to handling any investments prudently.

Hristo Borisov
CEO, Payhawk

Companies must possess sufficient liquidity to keep the cogs turning at all times and be ready to meet any market fluctuations.

Working capital

Working capital refers to the available cash flow of a company that covers business expenses and liabilities at any given time. Assets typically include cash accounts, receivables, property, and equipment, with expenses related to payroll, operational costs, servicing debts, marketing, and advertising.

Working capital is critically important for any company that is scaling up, as it enables them to fund day-to-day operations and pursue growth opportunities. Working capital can also play a role in improving the creditworthiness of a company, which can then, in turn, improve access to further funds. Following this, one study published in the Financial Innovation journal concluded that "deviation from the optimal working capital adversely affects…credit rating." [4]

One of the issues with working capital can be its availability in terms of cash flow. Sources of working capital, such as bank loans and investor equity, can take several months to become accessible, which can cause cash flow issues.

These delays can be a significant problem, as approximately one-third of e-commerce businesses consider running out of cash a major consideration in their everyday operations.[5] And smaller, recently founded companies will not necessarily have access to traditional funding options. Under 15% of small businesses can secure bank loans, meaning other sources such as crowdfunding, peer-to-peer lending, micro-loans and micro-financing, vendor, invoice financing, and bootstrapping all merit consideration.

Working capital is vitally important, as it ensures that the nuts and bolts of a business remain in order and the company remains strong enough to ride out both waves of growth — and uncertainty.

Growth and expansion

Most businesses have hopes of achieving significant growth and expansion. These ambitions are especially true of the technology space, where startups often have lofty aspirations of becoming worth millions or billions of dollars in a relatively small timeframe. Of course, this level of scaling up doesn't occur to all technology startups. But those that are successful in an unexploited niche can raise an incredible amount of funding and achieve eye-watering stock market valuations.

Cash flow is essential for growth and expansion, as it can be used to finance important initiatives, such as hiring new employees, expanding into new markets, launching innovative products and services, and investing in advertising campaigns.

> *Using credit cards with Payhawk is a big benefit for us. It means we have more flexibility for activities as we don't have to tie up our cash up front.*
>
> **Carolina Einarsson**
> FD at Essentia Analytics

While growth or expansion often manifests a company's core business, it also reflects diversified practices and revenue streams, and shouldn't come at the expense of wider business health and sustainability.

Capital expenditure

Capital expenditure refers to money invested in acquiring productive assets for a business, such as land, buildings, machinery, and equipment. It can also include asset improvements and related investments like renovations.

Planning is crucial for capital expenditure, as it involves long-term commitments. Companies must assess their cash flow and financing options to maintain and service these investments.

There are plenty of ways managing capital expenditure can wrong however and businesses must ensure that they're equipped to do the following:

- Planning and analysis
- Prioritisation (based on ROI, goals, urgency, etc)
- Informed cost estimations
- Comprehensive project management
- Post-implementation evaluation
- Business strategy alignment across capital expenditure, growth plans, regular business expenses, and more

Ongoing evaluation of costs and return on investment is also essential, and CFOs and founders may use cash flow or seek external funding. Capital expenditure should contribute to revenue and growth, so careful planning is necessary to avoid overspending.

Many companies budget capital expenditure separately from other expenses, considering costs, market expectations, and business growth.

Emergency funds (and single thread risk)

Running a startup can be unpredictable, and it's certainly not uncommon for such companies to encounter major emergencies. This is why the emergency fund concept exists; a cash buffer that can help deal with unforeseen events that could negatively impact the business.

Businesses can use emergency funds to repair critical equipment or other business infrastructure, deal with unexpected expenses, and cover payroll when encountering cash flow difficulties.

> *Founders should emphasise unit economics and cash burn profiles, make their business plans by assuming worse conditions about future financing prospects, and always keep a healthy cash runway.*
>
> **Mehmet Atici**
> Early Bird Digital East Investors
>
> EARLYBIRD

Companies can also use emergency funds to:

- Tackle revenue dips
- Ensure they meet any overhead costs
- Address any supply chain issues
- Ride the wave of a particularly challenging fiscal climate
- Or if the business is unexpectedly closed for a period (possibly due to natural disasters or pandemics)

The common denominator with all of these issues is that they're unexpected. This is why an emergency fund is so important, as it goes beyond regular cash flow.

"The ability to weather the recession and come out strong on the other end is a major competitive advantage in any market," Mehmet Atici says. ***"Founders should emphasise unit economics and cash burn profiles, make their business plans by assuming worse conditions about future financing prospects, and always keep a healthy cash runway."***

Scaleup CFOs and founders are recommended to have between three and six months of operating expenses saved in a business emergency fund. It's vital to have a cushion in case any major emergencies occur, like the 2023 Silicon Valley Bank and Credit Suisse crashes for example.

"We live in a world where traditional banks are no longer the only option available to companies, and plenty of alternative solutions can help you build your diversification strategy to avoid both single-thread risk, and ensure emergencies are covered," Konstantin Dzhengozov, CFO at Payhawk explains.***"As a rule of thumb, companies should aim to achieve no more than 30-40% exposure to a single solution provider."***

Summary

Founders must plan carefully and establish effective spend management practices to ensure a strong cash flow. This is crucial for sustaining business operations, fostering revenue growth, meeting financial obligations, and adapting to a changing business landscape.

The following section explores why implementing spend management solutions has become increasingly appealing for successful scaleup founders and CFOs as part of their cash flow planning, continued growth, and investor relations.

Chapter 2.
How spend management solutions help scaleup CFOs and founders control spending post-VC fundraising

We've established that spend management is an important aspect of managing cash flow and expenditure for scaleup CFOs founders. And in this section, we will examine how to leverage it to its full potential.

It's common for scaleup businesses to face big challenges when it comes to managing their investment funds. The modern business climate's complexity and rapidly evolving nature can make growth and sustainability difficult to maintain.

Tools that let founders track the company's financial health in real time, without the need of manual input and complicated procedures, can make a huge difference. Historically, spend management has been time-consuming and labour-intensive. But thanks to modern software solutions like Payhawk, these processes are now automated, quick, and pain-free.

In fact, smart businesses should view spend management solutions as essential investments for cash flow visibility, expense control, and growth.

Spend management solutions also help scaleup CFOs and founders to check and demonstrate the following:

Cash runway

A company's cash runway is the length of time the business has before it runs out of money. This is crucial for all scaleup businesses, as forecasting this aspect of the overall fiscal picture of a company is critical in decision-making. Spend management software can help calculate how much runway exists at any given time, enabling planning and decision-making about raising capital via funding and so on.

Gross burn

Another area where spend management solutions can assist is gross burn monitoring. This term refers to the total cash a company has spent on operations. It is a critical figure for any business, particularly one seeking to scale up its operations. Spend management solutions provide a system for monitoring and tracking expenses, ensuring that companies can always remain on top of their gross burn figures. Leading spend management software, like Payhawk, is also highly customisable, meaning that reports can be as simple or complex as required.

That's not all. Out of control spend is a recipe for disaster, but with innovative spend management software, growing companies can support good financial health and encourage growth. Here's how:

Real-time expense tracking

Tracking expenditures in real-time is extremely important in today's business environment. Spend management solutions provide founders with the tools to achieve this, offering real-time visibility into all expenses associated with a company.

Comprehensive tracking makes it possible to check every transaction, monitor spending patterns closely, and access various spend data related to outgoing costs. Having access to real-time and accurate expense data via spend management software means that founders can make more informed decisions and have tighter control over spend post-VC fundraising.

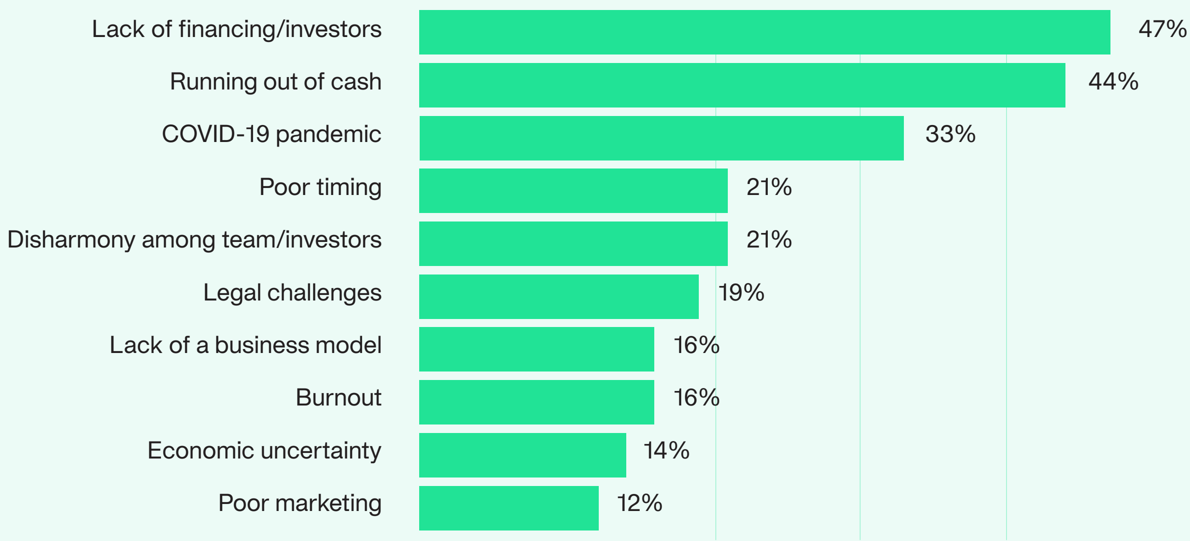
Budgeting and forecasting

Budgeting approaches vary for different companies based on factors such as size, team dynamics, industry sector, and broader contextual considerations.

Businesses must understand their spend in order to monitor team/project costs and ROI, manage cash flow, and forecast for the future, especially considering nearly half of startups fail because they run out of money (see graph below). CFOs and founders can plan expenses more efficiently by getting a comprehensive view of the company's financial position and setting budget targets accordingly.

Forecasting can showcase to investors how a company will effectively use the funds raised. Spend management software helps founders create a realistic and productive template for their business going forward. This can offer a serious competitive advantage, as, incredibly, nearly half of small businesses do not have a formal budget in place.[7]

Top reasons startups fail



Source: Skynova via Oberlo
Why startups fail

Integration with ERPs and accounting systems

For many growing businesses, the ERP is the businesses' one source of truth. As CFO at Heroes Giancarlo Bruni explains, "we use our ERP across all our departments. We have it in the People Team, for example, for payroll, and taxes, etc. And in Supply Chain, too, for inventory planning, etc. It's relevant for every single department."

From the first tap of a credit card to closing the month in the ERP, card reconciliation is crucial for businesses as it involves comparing company accounting records with bank statements to ensure accuracy and identify any discrepancies.

At Payhawk, we build our integrations following the accruals concepts meaning our customers can achieve error-free, real-time reconciliations and achieve the following:

- VAT reclaims (with fewer missing receipts)
- No more time-consuming manual entry and data matching
- Zero errors thanks to data capture
- And no time wasted on chasing receipts
- Or if the business is unexpectedly closed for a period (possibly due to natural disasters or pandemics)

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As a CFO, I want to know how much money and profit we have in real-time and what levers I need to pull. We also need to know about our stock, including when it's arriving, how much is in transit, and if we need more. I can see all of this via my ERP, plus I can see spending in real-time thanks to the direct integration with my spend management software.

Giancarlo Bruni
CFO, Heroes

Policy compliance and spend control

Policy compliance can be a major area of concern for startups, and founders looking to scale up. This is particularly true given the increasingly complex bureaucratic requirements imposed on businesses today. Spend management solutions assist founders in achieving compliance with existing legislation, while also helping companies to remain consistent with internal controls.

See how Payhawk approaches card controls with in-built rules and workflows: Watch now.

"We now manage liquidity planning more efficiently and accurately through the dashboard and take better control by segmenting data by subsidiaries, teams, and cost types."

Serkan Yüksel
Hypoport SE

HYPOPORT

Scalability and growth support

Modern spend management solutions must provide scalability to support post-VC fundraising companies as they grow. They should offer solutions that accommodate and add insight into increased transaction volumes and complexity.

"Everything we do must be scalable. Payhawk is flexible enough to let us grow very fast and adapt quickly to any changes we make," says Eduardo Felipez, Management Accountant at Heroes. ***"We can open a card, set a limit, etc. Payhawk gives us flexibility and the ability to adapt and grow."***

Software solutions in this niche provide an array of scalable features, such as multi-entity management, user permissions, and integrations with important external business tools. This helps founders track their expanding spending requirements while ensuring that their financial processes and procedures remain organised and coherent.

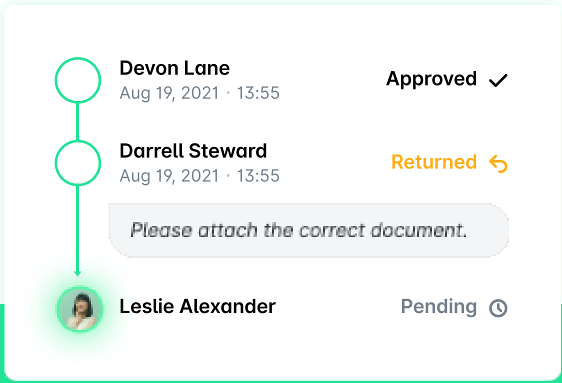
"Within multi-entity management, the Payhawk Group Dashboard lets us monitor group-wide expenses even faster and with more agility," Serkan Yüksel, Digital Transformation & Finance Leader at Hypoport SE, explains. ***"We can now manage liquidity planning more efficiently and accurately through the dashboard and take better control by segmenting data by subsidiaries, teams, and cost types."***

Team management / mobile accessibility

On-the-go, always-on functionality is vital for scaleups. Companies do business across multiple geographical locations, travel across borders, and employ remote teams[8]. It's important, therefore, for any spend management solution to offer easy, accessible software (including mobile apps and platforms) for both cardholders/users and account admins from the finance team.

As a Payhawk user mentions via G2, ***"Payhawk is very user-friendly! It saves me a lot of time when submitting all my expenses. Easy, quick, and clear!"***

Plus, with almost 75% of internet users on track to be mobile-only by 2025 [9], companies must be ready.



Supplier management

Suppliers are key stakeholders in the procurement process of most companies, and thus retaining strong relationships with them is always important. Supplier management enables businesses to identify the most appropriate suppliers for their needs and spend management solutions provide these services.

Scaleup companies can also use supplier management to diminish the risk of a supply chain disruption, helping to reduce the threat of decreased revenue while improving customer service by ensuring that goods and services are delivered more efficiently. By centralising vendor information, founders can negotiate better terms, thanks to optimised procurement processes.

At Payhawk our supplier master data function gives companies a robust, centralised collection of specific information about their suppliers. Getting one single source of truth over supplier data supports businesses to better manage key processes like procurement, accounts payable, and inventory management. And good, up-to-date data between platforms is crucial for accurate, up-to-date business management and control.

By utilising spend management solutions like ours, businesses can establish stronger vendor relationships. This can help create opportunities for the negotiation of preferable rates with external vendors, in the process saving the company money.

Summary

"Yes, other tools can manage expenses. But nobody does it like Payhawk. Apart from being more comprehensive, it's also more visual. With other spend management solutions, I felt blind about expenses. But Payhawk gives me all the control and visibility I need to carry out my work and make the best decisions."

Javier Gorena
CFO at Rentals United

Spend management solutions offer the tools and insights to enable scaleup founders and CFOs to control spending, implement growth projects effectively, and manage their businesses efficiently.

Spend management software should grow with your business, stay highly customisable, and offer in-depth insights, regardless of size.

"As a CFO, I want to know how much money and profit we have in real-time and what levers I need to pull. We also need to know about our stock, including when it's arriving, how much is in transit, and if we need more. I can see all of this via my ERP, plus I can see spending in real-time thanks to the direct integration with my expense management software."

Giancarlo Bruni
CFO at Heroes

Payhawk has become one of the most popular and successful spend management solutions for scaling and large businesses, providing all of the necessary tools to track and monitor company spending with a user-friendly interface, automated receipt chasing, and robust spend controls.

"With the tool we used before, we felt blind about certain information. I didn't know where to make adjustments and couldn't find things out fast enough. Now, with Payhawk, we can maintain visibility and control over spend, even as the number of receipts and invoices multiplies. And Payhawk's traceability empowers us to invest our cash where it will generate the greatest profitability."

Adrià Vázquez
VICIO CFO

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About Payhawk

Payhawk is a leading spend management solution for domestic and international businesses throughout Europe, the US, and the UK. Combining company cards, reimbursable expenses, accounts payable, and seamless accounting software integrations into a single product, Payhawk makes business payments easy — for everyone. Payhawk helps customers in over 32 countries to maximise efficiency, control spending at scale, and stay agile. With offices in London, Berlin, Barcelona, Paris, Amsterdam, Vilnius, Sofia, and New York, Payhawk's diverse customer base includes top names like LuxAir, Babbel, Vinted, Wallbox, and Wagestream.