

BENCHMARKING STUDY: FINANCE FUNCTION COST

How CFOs plan to DO MORE, DO IT FASTER, DO IT BETTER

How much should a finance function cost?

That question sparked a discussion among members of AchieveNEXT's CFO Alliance, with dozens of members sharing data and observations. In response to that discussion, AchieveNEXT sent members a short survey, which asked about finance function costs and headcount; enterprise size, complexity, and ownership; and CFO priorities for managing and improving the function.



“Generally, 1% of revenue (all-in...personnel, systems, etc.) is a good reference point. Larger companies (\$1bn+ in revenue) will tend to do a bit better than that with the largest/ best performing companies being about 0.5%.”

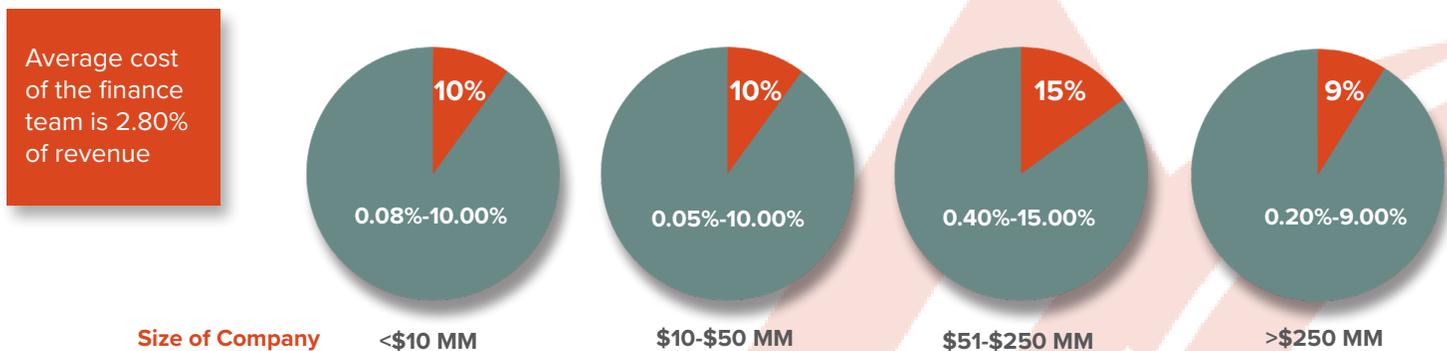
— Mark Glassman, CAO
Brandywine Global Investment Management, LLC

KEY FINDINGS

Best practice companies keep finance costs below 2% of revenue.

The average cost of the finance team is 2.80% of revenue, with the smallest companies (<\$10MM) being highest with an average of 4.72%. The higher cost for small companies is most likely due to the irreducibility of various fixed costs.

Finance costs as a % of revenue



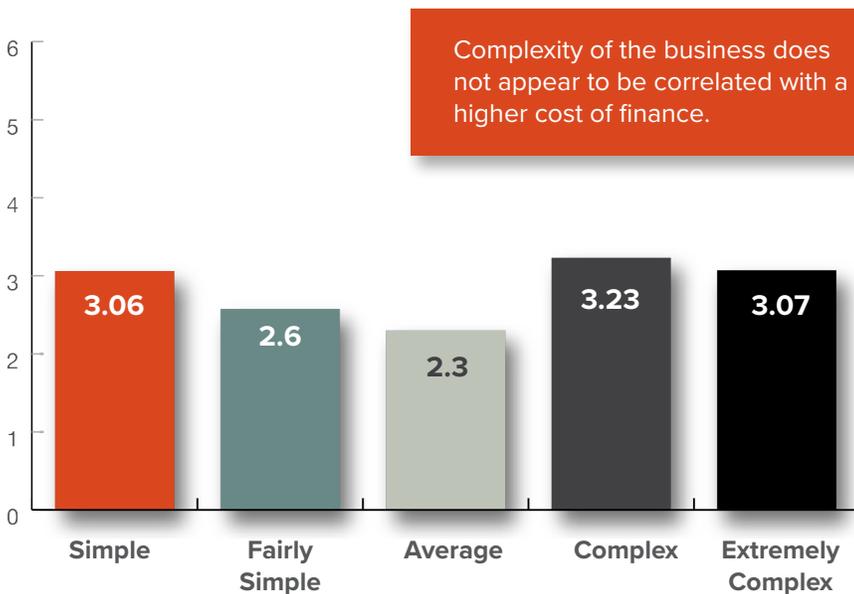
Economies of scale also appear at the top of the size range. In our sample we found no significant difference in finance team cost as a percentage of revenue among companies with revenue between \$10 and \$250 million, but the largest companies in the group, those with revenues above \$250 million, had average finance costs of 2.5% of total revenue, about 10% below the core middle-market cost.

HEADCOUNT IS FAIRLY CONSISTENT REGARDLESS OF ENTERPRISE SIZE.

On average, enterprises surveyed have 5.67 finance-function FTEs for every 100 employees. This finding supports the hypothesis that fixed costs account for the efficiency differences between small and large companies.

Complexity of the business does not appear to be correlated with a higher cost of the finance function. CFOs who said their enterprises are complex or very complex report finance-function costs that are only marginally higher than those of simpler companies.

Finance costs as a % of revenue



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Our finance staff fully loaded expense (i.e. salary + benefits) will represent 2.1% of total revenue in 2021. If I include software licenses and other ancillary costs, it will be around 2.4%.”

— **Ellen Purdy, CFO**
Office Practicum

Perhaps this is because the CFOs of complex businesses put a higher priority than their counterparts in less complicated enterprises on two initiatives that directly confront the price of complexity: cost management and investing in new technology.

Public companies and nonprofits spend a higher percentage of revenue on finance. It is not surprising that the auditing and reporting required of public companies drives up the cost of the finance function. The higher-than-average costs for not-for-profit enterprises might have two explanations. One might be reporting, in this case to state regulators of tax-exempt organizations. Alternatively or in addition, finance costs for nonprofits might be higher on average because they are able to use more volunteer labor in other functions, thus driving up finance's share of overall cost.

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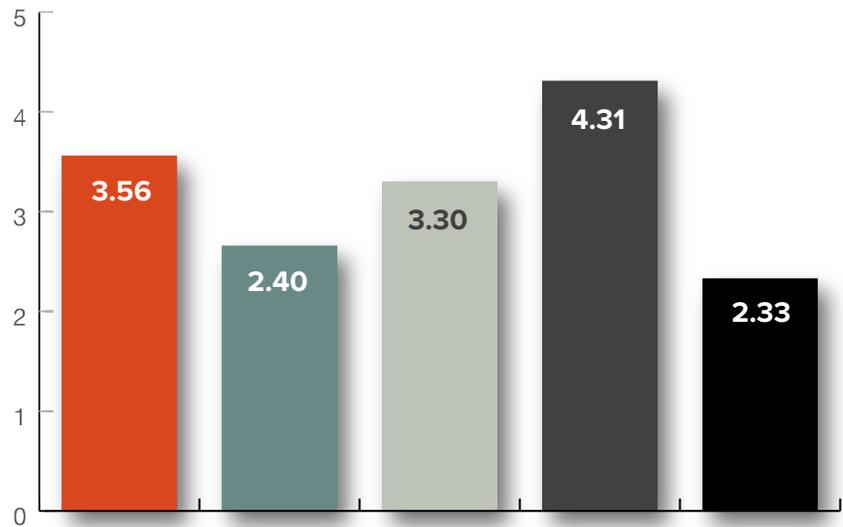
“We have done some pretty extensive benchmarking. The average insurance broker's finance/accounting team costs about 2-3% of booked revenue, depending on how much FPA and corporate development they do. Bear in mind that the transactional nature of an insurance broker can skew the numbers a bit.”

— **Dan Heller, CFO**
Lamb Insurance Services

Finance costs as a % of revenue

Company Type

- Not-for-Profit
- Privately-Held (LLC, family, closely held)
- Private Equity/Venture Capital-Backed
- Publicly Listed
- Other



CFOS ARE FOCUSING ON AUTOMATING WORK AND UPGRADING TECH

Asked to rank their priorities for the year ahead, CFOs put most emphasis on automating routine processes and upgrading systems. The goal seems to be to free up resources to focus on higher-value work (such as leadership), though they see and seek cost benefits, too.

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“The key to overall costs for finance comes down to the efficiency of your processes, the use of technology and having A players.”

— Mitch Codkind
CFO, Energage, LLC

Priorities differ by company size

