THINKING BIG

How CFOs of companies like Groupon and Wayfair kept explosive growth from overwhelming the business.

By Russ Banham

Like Jack's beanstalk growing furiously to an unknown destination, many organizations begin with the germ of an idea that sprouts rapidly. Astonishing growth occurs seemingly overnight, and all eyes are focused on maintaining the pace. Then, the time arrives for financial controls and rigor, and a tough-skinned CFO to implement it.

To the operating people riding high, the CFO is nothing but trouble, someone who is simply going to slow down the growth, restricting the capital that feeds it. Jason Child, finance chief of Groupon, once the fastest-growing company in the country, can relate. "In the old days, the CFO's job was to be Dr. No, the person throwing the blanket on stuff, telling people to simmer down and make sure they stick to a budget," he says.

Today, however, the role has changed, says Child. "Never in history have we seen people create a business and it be a billion dollars or more in a couple years," he says. "Now, thanks

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to the Internet and some pretty remarkable technologies, growth trajectories are fast and stunning. A CFO saying no isn't always the best response. There's a balance you have to strike so you don't slow down the train, and still keep on track at the same time."

This balance is what finance chiefs at fast-growth enterprises like Groupon, Wayfair, Mindbody, and Blurb are trying to accomplish. Each sprinted off the starting block like Usain Bolt, then reached a point where a seasoned CFO was required to instill financial discipline.

"It's a constant balancing act between growth and profitability," says Michael Fleischer, CFO at Wayfair, an online retailer of home products and furnishings. "In a mature business, the CFO cares about profitability. With a rapidly growing business, the conversations are more about "How do we keep feeding the engine?'"

Wayfair: Systems Support

Fleischer has played CFO roles at both types of enterprises. Prior to joining Wayfair in October 2013, he was the finance chief at Warner Music Group, and before that the CEO and chairman of technology research firm Gartner. He took Warner public in 2005 and was reportedly hired to do the same for Wayfair in the near future.

Launched a decade ago by two founders, Wayfair grew its top line by 20% in 2012, to $600 million, and now numbers 1,400 employees. In 2005, when the company was still a toddler, Nicholas Malone was CFO (he's now chief administrative officer). "We had less than $40 million in revenue and fewer than 40 people here at the time, and were using QuickBooks, but we were on a trajectory of doubling our growth," Malone recalls. "I was brought in by the founders to build a larger finance group and build the systems to support it. We had the base e-commerce technology in place and were constantly upgrading it. What we didn't have was a finance organization commensurate with our growth."

Malone jettisoned QuickBooks for an on-premise enterprise resource planning system, which was pushed aside two years ago for a hosted, cloud-based platform. He put rigid processes and controls in place with regard to revenue recognition from an audit standpoint. Then, he hired actual auditors. "Obviously, we needed proper controls and processes in place before we could have a successful audit," comments Malone.

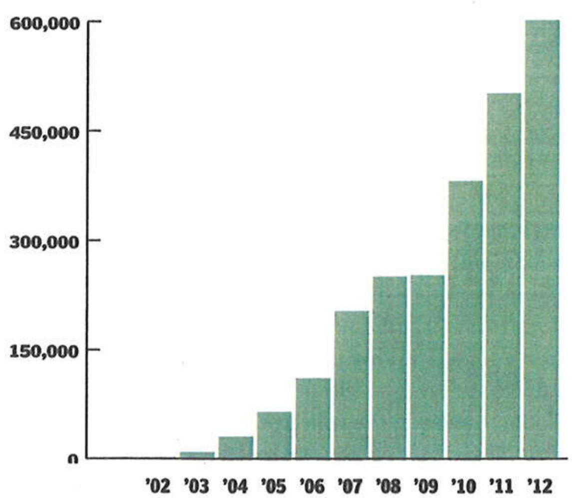
Although the changes were necessary and made sense, they were painful for the people operating the business, which was accelerating. "For instance, we were looking to expand internationally in year three and had to make some changes to our platform with respect to enabling foreign currency," says Malone. "That meant we needed to first

"Everybody wanted to move fast, but sometimes moving fast creates risk."
Nicholas Malone, chief administrative officer, Wayfair

John Soares Photos

WAYFAIR'S DECADE OF GROWTH

Revenue (in $ thousands)



Source: Wayfair

THERE'S NO PLACE LIKE HOME:
Wayfair carries more than 11,000 product brands in furniture, lighting, and other categories.

study the local laws, from both a business and accounting standpoint, of the foreign countries we were looking to operate in before we built the platform. Everyone wanted to move fast, but sometimes moving fast creates risk."

How did he persuade people to hold their horses? "As long as I communicated how important the changes were to our future and why they made sense, they gradually, if not grudgingly, accepted them as necessary," he says. A year later (in 2006–07), the finance and accounting platform was in place to venture abroad with confidence.

"Too many times, a company launches a new initiative that makes all the sense in the world, and then once it is halfway through the initiative it begins to contemplate the back-office implications," notes Malone. "We decided to have the processes and technology efficiently supporting the back office in place before we jumped."

Blurb: International Complexities

But what if the promise of international sales is so tantalizing that the financial consequences are undervalued? This was the case at Blurb when Gene Domecus signed on as CFO in August 2012. The idea for the self-publishing bookmaker took root in 2005, when founder and CEO Eileen Gittins gathered a team of design, Internet, and media veterans to create an online platform where everyone from Aunt Izzy to famous authors could design, publish, and promote their books using Blurb's full suite of bookmaking tools, and keep all the profits from the sales.

The concept was a winner. In 2010, it was the top media firm on *Inc.* magazine's list of the 500 fastest-growing U.S. private companies. Two years later, Blurb shipped 1.8 million books to more than 69 countries and territories. All that growth came with a price, however. "We had just gone global when I arrived, and no one had appreciated the impact taxes and duties would have on profits in certain countries," says Domecus, a veteran finance chief who served prior CFO stints at Rafter, Bella Pictures, and Macys.com.

"Going international was a very smart decision, but there were logistics and delivery complexities that I needed to point out—not that everyone was happy to learn the truth," he adds. "At that point in time, all that mattered was growth. The goal was to spend money fast to subsidize our growth and maintain our early-mover advantage before competitors took their share."

The complexities Domecus references were the different descriptions of what constitutes a book for import-tax purposes in different countries. "A book is not a 'book' in every foreign jurisdiction," he explains. "In certain places, it was considered a photo album or a planner or stationery, each with different duties based on the specific definition."

As he uncovered these distinctions, he realized the need for a wholesale audit of Blurb's book sales on a global basis. "We needed transparency into the financials that highlighted the P&L country by country," he says. "All of this was not visible before."

The audit shed light on a particular problem: In some countries, the duties and other taxes were so hefty that Blurb, which historically had picked up the tab for shipment, barely broke even. This leakage varied widely, with the worst-case example exceeding 100% of the book's revenues. "The simple solution would have been to charge the customer for the shipment, but this broke with tradition here and was widely unpopular," says Domecus. "The thinking was that volume would make up for the impact."

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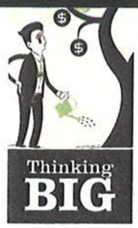
Gene Domecus, CFO of Blurb

Not wanting to be Dr. No, Domecus was left with a tough decision. "At some point, we could not possibly win in a particular country—my challenge was to prove this," he says. "I had turned the visibility on to duties and taxes. Hard choices now had to be made."

Domecus decided that in countries where the duty rate is between 2% and 7%, Blurb would continue to absorb full shipment costs, including related duties. That took care of about 30 countries. The same decision was accorded those countries where Blurb enjoyed a substantial volume and duties hovered between 12% and 18%. That took care



of another 20 countries or so. The bigger problem was determining whether or not to absorb the expenses in countries where the duties were in this range but volume was low, and in regions where the volume was significant but the duties were stratospheric.

"We're at the threshold of making these determinations, but my gut tells me the economics are not sustainable," says Domecus. "I keep throwing the negative margins in front of people and pointing out that this is not livable long-term. But the focus is still on the top line."

Mindbody: Better Forecasts

These CFO experiences resonate with Brett White, CFO of Mindbody, a San Luis Obispo, California-based provider of cloud-based management software to the health, wellness, and beauty industry. "The CFO is often the last guy hired because the founders typically don't want to invest in finance too soon, wasting money they could otherwise be spending on building products and generating more customers," says White. "You don't need a sophisticated CFO to get the billing done properly or make sure legal compliance is right—a good controller can do that."

Minding Its Business

Mindbody three-year revenue growth

2009	$8.2 million
2012	$32.5 million
3-year growth	298%

Source: *Inc.* Magazine

White says he's used to coming in at a certain "inflection point" in a company's trajectory, serving at several start-ups getting their financial sea legs, including Meru Networks, Fortinet, Corio, and Kana Software. So what is this inflection point? "It's when the founders start thinking about approaching sophisticated investors with their expansion plans," he says. "That's when they reach out, looking for an experienced CFO to ensure appropriate GAAP financials, implement tax strategies, and develop forecasts you can actually meet and beat."

White joined Mindbody in July 2013. The company, founded by CEO Rick Stollmeyer in his garage in 2001, experienced a 437% revenue growth rate between 2008 and 2012. From just 800 clients using its software in 2005, it now tallies 32,000 business accounts and is on track to have more than 50,000 customers by year-end 2014.

"We're a market leader and have visions of multibillion-dollar valuations and an IPO down the line, yet when I joined, the company had basic bookkeeping functions," says White. "My first task was to develop the processes and systems to produce accurate financial statements in a timely manner. Until then, it's hard to build forecasts, with garbage in and garbage out."

He is well on his way toward this objective, recruiting a seasoned finance staff, particularly in financial planning and analysis, and implementing enterprise-grade, cloud-based software systems for finance and accounting, and for planning and forecasting. "We've gone from Excel-based planning to becoming very metrics-oriented," notes White. "We're much more nimble and agile now, which is super-important to our market, which is constantly changing and dynamic. Most of our customers are single-owner yoga clubs or health clubs that then grow into several outlets. We need to evolve with them."

Finance at Mindbody is vastly closer to making accurate forecasts and executing against plans. "It's my job to get the company's financial and operational infrastructure to a point where it can become a very successful public company, should we choose to do that," says White.

Groupon: Setting Priorities

Groupon chose that route, and tapped Jason Child in December 2010 to lead the way—not that it was easy. "To become a successful billion-dollar public company, finance needs to have world-class treasury, accounting, tax, and internal audit processes and systems," says Child. "When you're trying to establish these at a company that is growing by leaps and bounds, you need to start sequencing what needs to be done when, because there is just not time in a day to do it all perfectly at the same time."

Child was no stranger to hypergrowth, having cut his teeth at Amazon. When he joined the e-commerce giant in 1999, its revenues were a tad shy of $1 billion; when he left in 2010 as vice president of finance for Amazon's international business, revenues were $50 billion.

Groupon's growth prior to Child's arrival was similarly spectacular. Two years earlier, the deal-of-the-day discount website had just started offering gift certificates in Chicago. Within weeks, the company sprouted in Boston, New York, and Toronto. By the time Child joined the company, Groupon had 35 million registered users, served 135 markets, and counted $700 million in gross billings, up from $130 million the

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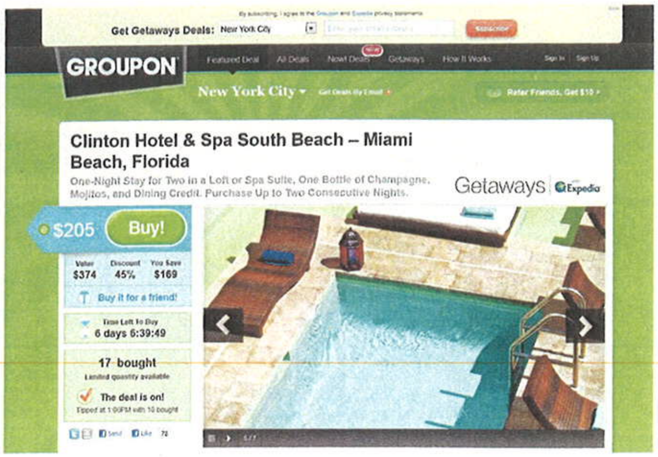

Courtesy chicagogrid.com

During Jason Child's first full year as CFO, Groupon's gross billings grew from $700 million to $4 billion.

year before. The company had gone from operating in the United States to 40 countries in all.

During Child's first full year at the finance helm, Groupon grew at a Jack-in-the-beanstalk pace, increasing that $700 million in transaction volume to $4 billion. "We were adding a country every couple weeks and were being copied or cloned by hundreds if not thousands of competitors globally," he recalls. "We had first-mover advantage and needed to deeply brand ourselves as the daily-deal provider in each market. The business side said, 'We don't have time for tax planning and building out the budgets—whatever glass we break today, we'll repair it down the road.' That's what I was dealing with when I joined."

Groupon had a small finance team composed primarily of accounting and accounts payable executives. Only a handful of people worked on planning and analysis, "largely putting together the decks to show potential investors the financials," says Child. "That was it."

After a buyout offer from a large acquirer (reportedly Google) was rejected, plans for an initial public offering gathered steam. Child was given six months to get the company ready to go public. Many CFOs would have blanched at the task, but not Child, who runs marathons and skis black-diamond slopes in his spare time. He quickly hired a chief accounting officer/controller to build internal technical accounting capability and an SEC-ready financial reporting infrastructure. He created an investor relations function, developed the commercial finance group responsible for creating budgets on a country-by-country basis, and put together the tax strategy ensuring that Groupon operated as a single global company.

Prioritization was critical. "We didn't need internal audit to be ready for us to go public, but we certainly did need it to be in place right after the IPO," Child says. "So instead of that being listed as Priority 1A or 1B, it was more like 1C."

Same with tax planning. "Theoretically, you should do tax planning as you're creating your business strategy to figure out the most sensible approach," he says. "In this case, the business had already gone down a fairly well executed strategy of global expansion in rapid fashion, from a cash management standpoint. Consequently, this became secondary to other priorities, like getting the control structure and accounting environment ready and in place."

All the while, Child drew upon his experience at Amazon. During his years there, he had rotated from accounting to finance support for marketing, into technology, then IR, followed by a few years in Asia and Europe leading to his last post as international VP of finance. "I learned to develop pattern recognition when problems arose and how to fix them," he says.

One such pattern caught his attention a couple months after joining Groupon. "Two business leaders came to me—one who had previously worked at Google and the other at Orbitz—and they were both frustrated by not having a budget," recalls Child. "We hadn't gone through the budgeting process at that point because we were trying to get the IPO ready. I had been through this before at Amazon, so I had an answer for them. I said, 'Why don't you tell me how much money you need to do what you're trying to do, and I'll tell you if we have the organizational capacity to make that a priority right now.'"

Groupon Regroups

in $ thousands

Revenues are rising ...

2009	$14,540
2010	$312,941
2011	$1,610,430
2012	$2,334,472

... and net losses are shrinking

2009	($6,916)
2010	($456,320)
2011	($373,494)
2012	($67,377)

Source: Groupon

Today, Child is the old kid on the block at Groupon. "None of my direct reports are the same direct reports I had when we went public two years ago," he says. "I've had to bring in people with the specific experience to handle the scale we're at today."

He's been through some trying times, including a revenue restatement for the year 2011 in March 2012, and a disappointing miss of revenue estimates for the third quarter of 2012. Today, the company seems to have settled down a bit, reporting a 24% gain in revenues (in North America) in the third quarter of 2013. Nevertheless, Groupon's growing pains are likely to continue: Google and Amazon are reportedly developing competing offerings.

Still, this should be expected. As Child points out, "We're only five years old." CFO

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