

# OPEXEngine

## News from the Operating Front

December '07

### G&A Expense Ratios

As the calendar year comes to a close, we thought this was a good time to take a closer look at G&A expenses. All companies would like to reduce G&A expenses, but it is particularly challenging for mid-sized software firms. Companies in the middle market need to meet basic services, continue to invest in growth, account for increasing regulatory and legal requirements, and all without the economies of scale of very large companies. In our analysis of **1H '07 G&A expenses as a % of revenue for 11 mid-sized software companies, we see a range of 11.6% to 19.9% with the majority of companies falling between 14.5 to 16%**. See the full data at: [www.opexengine.com/services/softwarereports.html](http://www.opexengine.com/services/softwarereports.html)

Efficient G&A and overhead spending is essential for attaining and maintaining profitability. In our discussions with CFOs of mid-sized software companies, the underlying issue with managing G&A expense tends to be the difficulty in making the appropriate overhead investments early. It is critical to establish early in the company's lifecycle the right processes for sustaining growth, entering the public markets and then meeting all the regulatory and financial requirements that are associated with being a public company. Many early stage CEOs would prefer to put their investment dollars into sales, marketing or R&D, rather than putting in place the processes and financial personnel necessary to meet public company requirements. That is, until a crisis looms and the cost of catching up is much higher. An emergency audit or, in the worst case, having to restate earnings, is far more costly than incrementally paying for good financial accounting and reporting along the way.

Companies that swing between high G&A spending (often the result of a "problem") and then major cuts in expenses often have trouble meeting profitability targets. By contrast, steady state overhead spending with a gradual lowering of the G&A-to revenue ratio, as revenues grow, will generate higher profitability and consequently, higher market capitalizations. For more detail on the 1H 2007 G&A expense ratios for mid-sized and SaaS software companies, see [www.opexengine.com/services/softwarereports.html](http://www.opexengine.com/services/softwarereports.html)

### Where to Trim the Fat

Beyond planning and implementing the appropriate processes for strategic growth, most companies look to squeeze any fat out of G&A services this time of year. Recommendations for quick hit expense savings, according to an ad hoc survey of software CFOs include:

- telecomm contracts (plenty of consultants will review and reduce your telecomm charges and pay for their services out of your savings);
- travel - limiting travel across the board as well as revising regular policies for more efficiencies;
- cutting sponsorships and/or retainer fees: some relationships have changed over time but may not be reviewed regularly to ensure that current goals are being met;
- printing and office supply costs;
- medical benefits;
- outsourcing of IT can be very cost effective and even provide better service for companies with up to 500 employees;

- outsourcing of various finance functions, such as A/P if those functions can be handled externally.

Estimates range between **3-5% savings** from these areas with further savings from successful outsourcing of IT and/or finance functions.

In OPEXEngine's confidential benchmarking survey of 20 mid-size software companies, we found **travel expense averaged 4.4%** of revenue (with median revenues of about \$80M). **Facilities expense ranged from 12-12.4%** of G&A budgets in 2006 and **legal expenses ranged from 3.8% of G&A for private software companies (median revenues of \$25M) to over 11% of G&A for profitable, public companies** (median revenues of \$85M).

For more information about participating in OPEXEngine's next confidential benchmarking for software companies with revenues between \$10M and \$400M, please contact me directly at: **781-891-4149** or [lauren@opexengine.com](mailto:lauren@opexengine.com)

Thank you for making 2007 a rewarding year for OPEXEngine. Be well and successful in closing a profitable growth year for your company.

### About OPEXEngine

OPEXEngine works with high technology companies to develop comprehensive operating benchmarks that enable them to manage and plan their businesses more efficiently. Our mission is to deliver useful operating information to help drive profitability and revenue growth. We work closely with our clients to ensure that data and reporting are relevant to their individual needs. OPEXEngine was founded by operating executives with decades of experience in finance, sales, marketing, and general management of technology companies.

### Contact us today for information about:

- Confidential Operating Metric Benchmarking
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