Biotech Financial Management Part 1: Track Costs with Project Accounting

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Essential Financial Management Practices of Biotech Companies – A 5-Part Series

Article 1: Track Costs with Project Accounting

It's staggering when you consider the contributions biotech companies have made.

Tools that enable less invasive surgery and faster recovery. Drugs that save and enhance lives. Devices that improve the quality of life. Ideas that lead to cures. Knowledge that leads to innovations. Research breakthroughs that reduce pain and suffering.

Right here in North Carolina and throughout the United States, from small startups to companies on the verge of IPO, biotech companies are beginning projects that could lead to even more revolutionary breakthroughs.

It's not all science and engineering – project management and financial accounting required

From the pre-revenue stages, throughout the funding stages, and up to the ultimate goal of merger, acquisition, going public or simply operating as a much larger, profit-yielding entity – financial accounting is a key component of effectively managing a life science or biotech company.

Commercialization of biotech research requires a clear understanding of the costs associated with each project.

There are any number of things beyond your control that could threaten your research and projects. Lack of sound financial accounting practices shouldn't be one of those threats. Technology and solutions exist that put you in control of your financial accounting. These are cloud-based and affordable solutions that can quickly bring biotech companies the accounting processes and reporting they need to satisfy funders, maintain compliance, and make data-driven decisions.

Project management and project accounting enhance efficiency and effectiveness

Project management – In any project-centric organization, an efficient, knowledgeable, and organized project manager is worth their weight in gold. They serve as a go-to in getting up-to-date, accurate information on the project's progress, obstacles, adherence to budget, staffing, milestone metrics and more.

“Project management is an established discipline, with degrees, techniques, and professional certification. Yet many of the people who do this kind of work in scientific industries do it without this formal training – or they pick up that training later.” ScienceMag.org

Project accounting – Equipping your organization with a powerful project accounting system is an essential best practice for biotech companies. If you have skilled project managers it will make them that much more effective. However, if you don’t have project managers (in the traditional sense the title implies) and the various responsibilities of project management fall to more than one person (accounting has a role, researchers have a role, IT has a role, etc.) then a project accounting solution is vital.

The project accounting solution you implement should automatically track all costs related to a specific project, for example, drug development – including time, materials and testing. The solution should also help you accurately allocate shared costs to provide greater insight into potential profitability.

Evolution of Your Accounting Solution and Preparing for Growth

Graduating from QuickBooks – It’s hard to find an organization whose first accounting solution wasn’t QuickBooks. QuickBooks is a great solution for what it was designed to do. However, the needs of biotech companies very quickly exhaust the capabilities of QuickBooks.

“Within a biotech company, things begin to accelerate rather quickly,” says Philip Massey, CPA and president of accounting software technology firm Massey Consulting.   “Each project needs to be tracked and meet the reporting requirements of the funder. When there are multiple projects, multiple funds, and perhaps multiple locations, trying to manage the financial accounting on an entry level system is difficult, if not impossible. I have seen situations where the accounting staff was spending 40 plus hours a month working in spreadsheets to try and sort things out – which is simply an inefficient use of time and manpower, not to mention the high risk of error.”

The other drawback of continuing to use QuickBooks, spreadsheets and other manual processes is the lack of integration between different information systems throughout the organization. In part three of this series, we’ll address the importance of unified systems in more depth.

Robust project accounting for the long haul – Outgrowing a software solution and implementing a new one will disrupt the organization to some degree. When selecting a solution, obviously you want the solution to address today’s challenges. But you also need to think in terms of future needs.

Your future accounting needs may include different phases of funding from the seed stage to angel investors, to various rounds of funding until you reach the Mezzanine level, make your IPO or proceed with merger and acquisition strategies.

The activity of the organization may also change in time from pre-revenue stages – concept and research, through business planning, product development, and maybe several other stages – to revenue generation, expansion and IPO.

You don’t want to be changing solutions every other year – it would be disruptive, expensive and painful. The point is to select a solution that will sustain your momentum by delivering project-centric accounting that offers opportunities for automation, scalability, tracking, reporting, and greater insight to better manage projects and satisfy the needs of the organization and your funders.

The Ideal Project Accounting System – 5 Benefits

Informed decisions with project insights – there are five ways a modern, project-centric system can strengthen the financial accounting and project insight of a biotech company:

1. Multiple operating dimensions
2. A single source of the truth
3. A statistical book of measures
4. Self-service reports and custom dashboards

5. Real-time project visibility

“What **multiple operating dimensions** means is that the system should allow you to track the various dimensions of the business and research projects,” explains Massey.

The first to feel the positive effects of best-in-breed financial accounting and project accounting solution will be the CFO, Controller, and accounting staff. But Massey points out that there is a ripple effect, “The executive management team, the board, and funders will be enthusiastic about the ease with which they can drill down into the areas of concern or exceptions which is facilitated by the architecture of the software – the multiple operating dimensions.

Having **a single source of the truth** is paramount in providing accurate, consistent, audit-ready, and traceable information tracking and reporting. It comes down to your data being able to withstand the most intense examination. For as James Wang of San Jose-based QStock notes, “Reporting and accounting must be very clean for biotech companies because they will be scrutinized.”

The system should be able to serve as **a statistical book of measures** by combining operational and financial metrics for greater insights. The system should be integration-friendly allowing you to look at headcount, locations, and contracts not captured in a standard ledger.

There will be a positive ripple effect of the solution outside of accounting and the executive team. A modern, cloud-based accounting solution should offer **self-service reports and custom dashboards**. “Give project managers easy access to data that’s meaningful to their work, and they will be able to manage better and drive faster results,” reports Massey. “They will know where they stand budget to actual and be able to make data-driven decisions that will move the research forward without fear of over-spending.”

Real-time project visibility means knowing exactly what the status of a project is today – not last week, last month or last quarter. Real-time project visibility provides optimal control and clarity and gives decision-makers and leaders the data they need to act with confidence.

As you evaluate your next accounting software for your biotech company, get the best software, domain and technical assistance you can. Look for a consultant who understands and has worked with biotech companies before.

It’s important to scrutinize not only the software itself but other factors such as customer reviews and references, satisfaction ratings, third-party reviews, and endorsements from accounting experts like the AICPA.

*This five-part series will continue with **part two ‘Automation, Tracking, and Traceability’**.*

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