Unicorn Companies: Mapping Out a Future Strategy

Unicorns may be mythical creatures, but the companies that bear this name are now a major force in business.

Based on size alone, unicorn companies now have the potential to exert a meaningful impact on business and society in general.

It raises the question of just how far down the reporting road unicorns should now go. The question becomes more compelling when you take into account that unicorns face the same business challenges and constraints as listed companies that are often smaller, yet have a higher regulatory responsibility and are tested on a daily basis in the markets.

As private companies valued at $1bn and above, unicorns are distinctive in their utilisation of technology to disrupt a particular sector; think Uber which is transforming the way we hire taxis, Airbnb replacing the hotel model or fast-growing Asian e-commerce site, Lazada, which aims to change the online shopping experience.

Yet while $1bn is the minimum valuation to be branded a unicorn, some of these companies are now as big or bigger in valuation terms than many of their listed counterparts - Airbnb is valued at $25.5bn, making it the third highest valued startup behind Chinese smartphone maker Xiaomi ($46bn) and Uber ($51bn)*. All three unicorns are now valued higher than many well-known publicly listed companies in the world, including Kia Motors, Prada and Samsung.

*Valuation figures from CB Insights www.cbinsights.com/research-unicorn-companies

by Chris Fuggle, Partner Mazars in Asia-Pacific
**Investor pressure**

Of course location will play a role in the level of reporting unicorns need to consider, whether it’s navigating the complexities of emerging market regulations or highly supervised markets such as the United States and Europe. But an additional driving force behind the need for unicorns to raise their compliance game is investors themselves. Slow growth and a dampening of returns, particularly in emerging markets and Asia, means investors are increasingly looking at ways to realise exceptional performance from unicorn investments via an Initial Public Offering (IPO).

Yet getting the balance right between back and front office functions in order to smooth the compliance path to a stock market listing is not necessarily considered a priority, particularly when the primary focus for many unicorns is expansion and often at a rapid pace. Unicorns have a natural tendency towards agility, market disruption and a big appetite for capital raising, which means having people on the ground to service customers or to explain the business concept to local investors in order to raise additional funds. It’s important, therefore, to find a compliance solution that does not divert much needed funds for expansion, yet offers a stepping stone to fulfil greater reporting requirements in future.

**A lighter version of accounting**

So in the race to gain traction in new markets is there an optimum level of reporting unicorns should be considering? All unicorns need to remain compliant, but certainly not all unicorns will want or need a full set of accounting reports for every market at the outset, yet at some point - and it often comes quicker than anticipated - startups considering the IPO route will need detailed and complete accounts. Unfortunately, the longer these latter needs are ignored, the more costly and time consuming getting the accounts in the right state for a public listing will be. This oversight is often compounded by the fact that most startups will hire employees focused on sales rather than compliance.

One approach is to incorporate 'light' accounting into the business structure at an early phase. For example, rather than completing complex monthly accounts to a strict timetable, a lighter option would be to conduct more basic accounting duties on a quarterly basis. The option to outsource accounting and payroll services to ease the pressure when expanding into new markets and opening local offices should also be considered. Any preferred outsourcing partner should not only have the expertise and resources to fulfil a wide range of back office needs, but should also have the speed and agility to support global operational needs specific to unicorns.

**Trust and transparency are key**

Outsourcing non-core competencies can not only help improve the bottom line, but will identify compliance gaps needing attention. This is an important factor when it comes to future fundraising. Investors’ appetite for higher levels of trust and transparency is likely to increase as access to private investment becomes easier through crowdfunding platforms and the number of opportunities to invest increases as startups begin to disrupt untouched sectors of industry. Without strict public reporting obligations, it means that day to day management information becomes even more significant. It’s an approach that not only helps map out a future strategy for investors, it provides the foundations for a sustainable business model allowing unicorn companies - unlike their mythical namesakes - to thrive.
Shopping list for unicorns

Based on working with a number of unicorn companies, Mazars has developed a specific 'light' accounting service and have identified the following compliance must-do's for any unicorn in the Asia-Pacific region.

1) Put basic structures in place at the outset so compliance problems are not too difficult or costly to unwind and rectify at a later stage.
2) Build a relationship with compliance experts early to avoid accounting, tax and other compliance surprises further down the line.
3) Consider basic accounting services at the outset to future-proof any IPO plans.
4) Think carefully about how to achieve the right skill set between expansion and compliance.
5) Don't overlook the reporting complexities of emerging markets.
6) Consider outsourcing non-core competencies as a route to greater profitability.
7) A sustainable business model is greatly enhanced by the trust and transparency of management information on offer to investors.

Want to know more? Visit:
www.mazars.com/expertise/aos

About Mazars

Mazars is an international, integrated and independent organisation, specialising in audit, accountancy, tax, legal and advisory services. As of 1st January 2016, Mazars and its correspondents operate throughout 93 countries. 77 of these countries are part of the Mazars integrated partnership and 16 are Mazars correspondents. We draw on the expertise of 17,000 professionals to assist major international groups, SMEs, private investors and public bodies at every stage of their development. The Praxity Alliance offers Mazars operating capacity via professional teams in 21 additional countries.