

## **FiOS1 News Long Island Money and Main\$street Interview Christa Laurie and William Lieberman**

### **Topic: How to Know if Your Finances are in Good Order**

*Christa Lauri -CL*

*William Lieberman -WL*

CL – We're now up to our CEO sit down, the segment on our program where we turn to a prominent CEO to tackle a topic in business and today we're joined by William Lieberman. William is a consultant and mentor to entrepreneurs in a variety of industries. Welcome to our show William.

WL – Thanks you Christa.

CL – So today we're tackling how do you know if your finances are in good order with your company. A good place to start here as you told me is tracking cash.

WL - Absolutely, you need to know how much cash you have on hand and how much cash your forecast to be spending over the coming months, so that you know, if ahead of time, if you're going to be in trouble or not. And as long as you have those, your books and good order and a good forecast in place, so they can see cash going up or down, then you can make adjustments ahead of time.

CL - But do you have business come to you without a forecast for the year?

WL - Hundred percent, happens all the time. You'd be surprised. A lot of people have their books are on good order and they say, "hey here's my accounting," but they don't know and they haven't forecast out in the next twelve months, so they don't know where the business is headed from a financial perspective.

CL –So a year is a minimum would you go further than that?

WL - No, a year is good because that's a good visibility for a small business owner to look at.

CL - Having an emergency fund, how critical is this?

WL – Just like you do at home, right, you need to have three, they always tell you three to six months of spending on hand of cash on hand, same thing in the in a business. Three to six months of your operating expenses in cash or available to you in credit has to be a non-starter, you have to have that no matter what.

CL – And in your experiences, what has this helped a business cover so that they could stay afloat?

WL – Well when a client will come along and they say, “Hey a big customer cancelled their contract. I wasn't for seeing it.” Now they have enough cushions to be able to make payroll as they either wind down a little bit if they have to or ride that out until a new customer comes along.

CL – Now in terms of evaluating you company finances, you also recommend evaluating your receivables. Speak to that.

WL - Absolutely, so as look at your receivables, if you are invoicing customers, you have to look at how long those receivable are outstanding. Is it thirty days, sixty days, ninety? When they start stretching beyond sixty days that points to service issues, potentially credit issues with the customers and you need to measure that on an ongoing basis to see what's the trend. My company when I came on, there were seventy-two days outstanding and we reduced it to twenty-eight and it generated a lot of cash for the business.

CL - How important is it to have a formal notification process?

WL- You have to have a standardized process by which you say, “Hey Mr. Customer, Mrs. Customer, I sent this invoice to you, you know, thirty days ago. You haven't paid. Is there something going? Is there something I need to be aware of?” And stay on top of your collections, so that you're constantly talking to these people and understanding, if there's an issue let me know ahead of time and get that visibility, so you can plan for yourself as you manage cash.

CL - What should you look for in terms of reviewing your payables and any red flags that you might note?

WL – Typically on the payable side, you want to make sure you stretch as much as you can. Obviously you have to stay within the contract or whatever you have with your vendors, but you don't need to pay them day one. Pay them net thirty if that's when they're owed and but if you see something stretching and your controller, your bookkeepers not paying somebody for reason that could come back to you. The vendors could be upset with you and cause difficulty with your business, so you have to stay on top of that.

CL- And how do you help your clients with on maintaining positive working capital?

WL- So what we do is we make sure that we understand all the different moving parts of your financial picture, so it's the revenues, the profits, the balance sheet, payables, receivables, they all intertie. And so when you look at work and capital, how much do you owe verses how much do you have and if you owe more than you have, then negative working capital are a sign of distress. And we help people work through that.

CL- Right, fairly simple formula but not always in practice, right? You also need to make sure you are profitable.

WL- Absolutely and that's sometimes people just ignore that and say, “I'm selling a lot of stuff.” Okay, well how much cash are you throwing the bottom line? How much profit am I really generating from this business and if it's not enough, if it's not ten, twenty percent net income as a percentage of revenue and something needs to be looked at to reduce your expenses.

CL - We don't have a lot of time, but I do want to ask you this cause when I go out and interview and speak to CEOs who are new and they haven't turned a profit yet. You wonder, when is the point in which should really turning a profit by now?

WL- Typically when you look at startup or new businesses eighteen to twenty-four months is kind of the range that you really need to be profitable. Sometimes it's twelve but typically eighteen to twenty-four.

CL- Okay, great to have you on the show here. William Lieberman of The CEO's Right Hand, thanks so much.

WL - Thank you.