William Lieberman: Thank you, guys. Thank you Cameron. It's great to be here, and hopefully give you some tidbits that you could take home. I don't know if we're going to have a bonus time, but maybe through this presentation. We're going to go through budgeting, forecasting, working capital management, cash management. We're going to spend about an hour. There's going to be plenty of time for questions along the way. And if I don't get to all your questions, I'm around later.

I'm going to do a real quick background, and then we're going to speak about budgeting, forecasting, and what's that involve, what's the difference between budgeting and forecasting — a lot of people don't know that — how do you make sure that the data that you're using for your budget and your forecast is clean, you have good data. That's kind of important. Real quick sidebar on accrual versus cash accounting, because that impacts the decisions that you make. Then, we jump into managing cash. And if we have time, I'll get into some working capital management and liquidity, which is key to the business.

Real quick housekeeping. I'm going to email this presentation out, so you don't have to furiously take notes. There's a ton of information in here. Again, I'll be available either later today, tonight, or you could always reach out to me and I'll give you some more information. And feel free to interrupt if you have any questions. I'm happy to answer along the way.

My company, we have about 18 people providing outsource finance, services to what I call early-stage growth companies. Early-stage growth companies being anything from pre-revenue to $50 million-plus. So, lower middle market to middle market. It's just how I define it. We act as the financial business partner to CEOs, COOs, management teams, boards. Been around about five years. We are based in New York, but we have clients all over the country.

We do a bunch of different things, but anything that's related to a dollar sign, we'll get involved with. You think cash flow and financial planning, advisory work, which is investor relations, board relations, presentations, operations. We'll help, just because I've had a ton of experience growing five different companies, and my partner and other members of the team, the strategic CFOs, as well. We get into a lot of fundraising consulting. That doesn't mean we're investment bankers, but we go help cap raise and even exit planning, and then tax work. We have people on our team that are experts in tax.

Budgeting and forecasting. A budget is telling your money where to go instead of wondering where it went. Right? Where am I going to be, and how are we going to get there? It's not rearview mirror time. Forward-looking, almost like the three-year vivid vision, but let's go one year out. So, that's key, and making sure that you understand where you want the business to go from a business perspective, and then translating that back into a financial mechanism that you can track how you're doing.

The single most common question that I get from either prospective clients or sometimes even existing clients, "Can I afford to, blank?" Happens all the time, every time. "Can I afford to hire this person? Can I afford to buy this company? Can I afford to spend $20,000 on LinkedIn ads?" Whatever it might be. Happens all the time because people just don't have the visibility and the mechanisms in place to make informed decisions. So, that really hampers their ability and strangles your decision-making ability on the business. If you don't have a lens into, where are we, where are we going, and how are we going to get there, what are what I call the knobs and dials of the business, you can't make informed decisions, and you get hamstrung.

Why is the budget important? What is the most important thing about the budget? First of all, how many people have a formal budgeting process? Most of you. Good. For those that don't, obviously, there's some good information and ways that we're going to help you figure that out and what to do. For those that do, anyone, why do you think a budget is important? What's important about a budget to you, for the people that are doing it? Anyone?

Male Audience Member 1: Accountability.

William Lieberman: Accountability. Anyone else?

Female Audience Member 1: Gives you direction.

William Lieberman: Gives you direction. Exactly. If you think about what is the insight, and what is important about the budget process, to your point, a budget provides guidance, direction as to where you're headed, and where's the company going, how are we going to get there. Important thing to know, it's static. It's a single look at the business over a 12-month period. We'll talk about forecasting, which is more dynamic.

Budget, you do typically once a year, and it's, "Here's where we're going to be in the next year." It's a detailed representation of what you want the business to achieve. Right? Definition of the budget. Created towards the end of each year. It shows the financial position of the business, the cash flows of the business. Right? So, think about cash. It's not just, "Hey, we're going to make $100.00, and we're going to spend $20.00, and therefore, we're going to have $80.00 of profit." Well, what's the cash flow associated with that, as well, is important.

We want to look at and compare how we're doing throughout the year to that budget. So, each month, each quarter, how are we doing versus that budget that we put together, and what's the variance, and what are we going to do about it? So, that's the important thing is, what's the action that you take when you see that you're $20,000.00 over budget, or under budget, or whatever it might be. What are you going to do about it?

Next. And if somebody comes along and says, "Hey, I'm going to spend $10,000.00 more on this piece of equipment," well, they need approval for that. They don't just get to spend it. I see that time and time again, lots of clients where managers will just say, "Hey, well, I've got to do this," and they go ahead, and they sign an approval. And so, they go ahead and spend the money, but they don't have leadership oversight or financial oversight to say, "Well, if I'm spending $10,000.00 more on this, where am I getting that $10,000.00 from?" Right? It's not an unlimited pot.

Budgeting versus forecasting. A budget you're going to do once a year, typically, whereas a forecast and a reforecast, you're going to do maybe quarterly, sometimes monthly. Depends on the velocity of the business. How fast are you growing, and how fast are things changing? Do you lose a big client? Do you gain five clients that you weren't thinking about? So, that's where this frequency comes into play.

The budget tells you where you want to go. The forecast tells you where you are. Right? What have we done, and what clients did we just sign. So, therefore, what are our revenues going to be, given this current situation, which could be six months after you did the budget. Right? Things change.

The budget is best used for setting goals and incentives. We talk about incentives and bonuses for your staff, your management. So, the budget can be used to help set those goals. The forecast is much more operational in nature. I'm going to make tactical decisions about my forecast. Right?

Who's doing this? The budget is collaborative. Everybody in the company will talk about that. And the forecast typically is management. Right? You're going to have potentially more people involved in helping build the budget from the bottom-up. Forecast, you might just have the top management team looking at the latest data, latest information, and make decisions about, "Do we need to do something about what we're seeing, and what changed?" Budget, very strategic. Forecast, very tactical.

Female Audience Member 2: I just had a quick question about that. Regarding the velocity of growth of a company, if your forecast is looking uber-positive and things are materializing after quarter one or quarter two, much better than you anticipated, could it be a tactical decision to go back and change the budget to actually invest in those areas that you could capitalize on, or do you recommend not changing the budget?

William Lieberman: Well, the way we do it is we change our forecast. What you do is you reforecast for the next six months, or the rest of the year, so then you can say, "Okay. Well, we're doing a lot better, so here's our new forecast." But the budget is still locked in, and the forecast says, "Hey, we think we're going to overachieve by 25% against budget." No, you don't change the budget, typically. But you do reforecast. And then you use that new forecast to incorporate in whatever new decisions that are going to be made. So, now, if we're doing way better, what are we going to do that's different than what we thought we were going to do when we did the budget.

Male Audience Member 2: A question. Can the budget be in percentages as opposed to a dollar value?

William Lieberman: Sure.

Male Audience Member 2: If the revenue went up, or the forecast went down, by default, the budget went down. If I'm supposed to spend 28% of my revenue on traffic —

William Lieberman: Right.

Male Audience Member 2: — that's my budget.

William Lieberman: Right.

Male Audience Member 2: But if I'm doing a lot more than I anticipated, then am I allowed to spend more?

William Lieberman: Well, okay. In that example, no. You would look at the dollars. Right? The percentages, I would use to say, "Hey, I'm . . ." Let's say it's cost of goods sold, and my gross margins are better than I thought they were going to be. What I'd do with that information is, I then use that in my forecast to say, "Hey, my margins are better than I thought they were going to be, so now I'm going to reforecast using a higher margin."

Female Audience Member 3: Question.

William Lieberman: Yup.

Female Audience Member 3: If the forecast, let's say that it's continually diverging from the budget. What value are we getting from having the budget around?

William Lieberman: Well, it all depends on if it's seriously off either to the good or to the bad. Then, that informs us as to, "Hey, what are we doing wrong or different when we do the budget versus what are we doing today?" The way I would like to do it is say, "What are we learning from the changes that are occurring?" so that when we do the budget next year, we sort of, "What's the learned lesson?" and we incorporate those changes in the new process because something in our process might need to be changed. Right?

Female Audience Member 4: You suggest forecasting first then, right? Then you can go and reverse-engineer your budget.

William Lieberman: You start with the budget. Right? For the annual budget. And then you reforecast throughout the year, as needed. And then at the end of the year —

Female Audience Member 4: I guess my question would be, if you're going to budget first, wouldn't you need to forecast what your revenue would be in order to —?

William Lieberman: That's part of the budget process.

Female Audience Member 3: It sounds like the budget's like a forecast.

William Lieberman: It is. It is.

Female Audience Member 5: The budget's fixed. Because I work for a listed business, for example, and that's when it suddenly becomes a real, comes into its own, I suppose. Because you go into the market and you say, "We're going to make this," then that's what's in our budget. And if you miss it, or you make more, you've then got to explain to the shareholders who have pension funds and things why you've made more or less than you said you were going to on day one.

William Lieberman: Exactly. And there are going to be other constituents. It could be shareholders. It could be other members of the management team.

Female Audience Member 4: We forecast our revenue, and then we budget based on what percentages, or whatever it may be, build the budget, and then follow it from there.

William Lieberman: Right. In terms of semantics, when you say forecast revenue, you're just saying, "In our budget, we're going to say, 'Here's what we think we're going to do in terms of revenue as part of our annual budget.'" And then on an ongoing basis, you can incorporate changes in the business to reforecast. It's just a little bit of semantics, but it's important in terms of the tactical nature of a forecast versus a strategic nature of a budget. All right?

Here, we're here on a ship. We want to get to the island. At the beginning of the year, that's how we're going to get there. But, [chuckles] in reality, all sorts of shit happens along the way. And we might get to that island, hopefully, but it's going to be a lot different than what we thought was going to happen. It always is. It's just a visual.

What are the components? Revenues? Driven by the marketing machine, right? As Cameron is saying, he's got to gen up marketing so that he can then generate sales, cost of goods sold, or

cost of labor, depending upon the type of business you're in, all the operational expenses, sales and marketing, product development, customer service. These are just the various components.

What's important is, don't forget cap ex. So, if you're in a business that has assets, you've got to spend cash on those assets. That's part of the budgeting process. It's not just the P&L. It's not just an income statement situation. And debt service. Right? So, if we have to pay interest on any debt service that's out there.

What's your role? If you don't [chuckles] understand the numbers, you're fucked. Right? [chuckles] So, it's incumbent upon you COOs who are in charge of, in many cases, making sure that the budget is properly implemented in the business and you're tracking as to the performance of the business. That's critical.

So, how do you do that? Well, first of all, make sure that you're getting timely financials from your finance people and your accounting people. Make sure that you understand what those numbers are. Every month end, there's a financial close. You should have a financial close package that you review with your finance team and your CEO every month. What are the key performance indicators of the business? And track them every month. Make sure you identify what they are, you understand how they're measured. You look at the trends over time, where have we been, where are we going, and track how you're doing against that forecast.

Female Audience Member 6: One question. What do you recommend for a timely close? How many days after the —?

William Lieberman: It all depends on the type of business. I've seen some businesses close their books three days after the end of the month. And that was a $400 million business. Professional services business. Highly unusual [laughs]. Typically, we see middle of the month. The 15th of the month, plus or minus, for the prior month.

The types of KPIs could be operational or financial in nature. Cash, profitability. If you're in a professional services business, maybe number of billable hours, billable days. It could be units sold, if you're in a product business, CPG business. All those types of things should be on a dashboard that you can look at and review every month.

Making sure you understand the financial statements, critical, so that you know what's going on on the balance sheet, in the income statement, and even statement in the cash flows, which really is the most important one, and manage the cash flow of the business. It's kind of an obvious one.

Creating a budget. You start with a revenue forecast. You estimate your cost of goods sold based upon your historical margins. Unless you know something's changing. Tariffs is a good example. Look at your departmental labor expenses and your hiring plan. So, talk about creating a budget. You need the hiring plan. How many people are we going to need to deliver on those revenues? Making sure that you get and include the proper amount of overhead for your people. Benefits, payroll, etc. And, oh, by the way, payroll changes throughout the year. FICA more in the beginning of the year, less at the end of the year. So, you have to understand those moving parts.

Next, the fixed operating expenses. Rent, utilities, things like that. Those are pretty easy. But then you get into the variable ones. This is where you need help from all the departments. What are our variable expenses? Could be training expenses. Could be T&E. Things that go up and

down, and you have some discretions over, versus things like rent. Capital expenditure plan. Both for maintenance and replacement equipment. You need to maintain your equipment, but you also might need to buy new stuff.

And then you compare the budget with the current year's actual results. You're doing this budget. Let's say you're on a calendar year. You're doing this budget in October, November. How are we doing this year, so far? What do we think we're going to do for the next three months? So, what does this full year look like? Because we're doing a 2021 forecast, or whatever it might be. Let's compare how we're going to be doing, or we think we're going to be doing with the budget that we're putting together, and what's the variance on those.

[chuckles] I love *Dilbert*. He's always got tons of stuff on finance and accounting, so I always put *Dilbert* in. Collaboration. You can't do this by yourself. And the CEO can't do it by him or herself either. You have to have the team help put together what their information is and what they believe is going to be important for that annual budget process. The CEO or the management team, typically, but the CEO is going to set, "Here's what has to happen next year. We have to hit $50 million in revenue," whatever it might be.

There's going to be some nonnegotiable things. "We have to enter this market. We have to buy that company." Whatever those nonnegotiable things, you need to know that day one so that you can then incorporate that thinking into the budget process. And everybody else needs to know that.

Building consensus. Everybody should participate in that budget process. You get buy-in. It's a team building exercise, in some cases. But you've got to make sure that you're hearing what they need from their departments, and what they think the business should be doing in the coming 12 months.

And then make sure everyone understands the constraints that you operate within the company, both exogenous variables that are important, and internal constraints. It could be, we can only hire so many people, or we only have so much space. Anything like that. But everyone's going to have a different view coming into the process. But then by collecting that together and having a conversation, you can then incorporate what they believe and what the common constraints are in the overall budget planning process.

What does this stuff look like? You've all seen lots of spreadsheets. I live in spreadsheets. This happens to be a subscription model business. Revenues, they do cost of revenues, and there's a breakout. And then there's a whole long list of operating expenses. And month by month, there's a whole detail behind all this. And I'll show you another example.

Now, you're getting into forecasts. We got the budget, which is a forecast at a point in time, next 12 months. But throughout the year, there's a process by which you can follow to help improve your forecasting ability and reforecast what's going to happen for the remainder of the year. Or, sometimes, people will do a rolling 12-month forecast so they're always looking 12 months out. It's a really cool technique that gives you a much better lens and much better precision on an ongoing basis, as opposed to just trying to do this maybe once a quarter, or maybe just once a year. People are now looking at, and I have clients that will go, "I'm going to look out 12 months every quarter." It's basically a four-quarter view into the future.

It is a combination of instinct. What's your gut say in terms of, “How am I going to generate new revenues in the coming 12 months?” versus the quantitative analysis. So, judgment forecasting. What's my intuition say? Are we going to be able to close these deals? I don't know. Maybe. Maybe not. But you're going to say, “Well, I've heard this from the industry, so I really think I'm going to be able to get this done. “

I'm going to use my experience set, anecdotal evidence, in order to inform what that forecast should look like, versus the pure numbers analysis. What have our margins been for the last three months, or six months? What's our close rate for our business in the pipeline? How fast are things moving through the pipeline? So, we look at all the sales figures, all the data from the business. And this is back to making sure that we have good data, comes into play.

We’re going to look at results. I put past three months. It could be past six months. Again, it depends upon the velocity of the business so that you incorporate the most recent historical information. We’re going to amend the prior forecast or budget. The last time we did this was a budget. We’re going to amend it based upon what those latest results show. So, we can say, “Hey, we just closed X, Y, Z business,” or, “Our margins tanked because of coronavirus,” whatever it might be. We can then incorporate that into our current thinking.

We update the revenue targets based upon the current pipeline. If we have more sales than we thought we do, we have four [Gordys] working for us and they're cranking like nobody’s business, let's put that into the pipeline and reforecast out based upon that information. Then we adjust based upon the actual sales data, what are our KPIs. And the KPIs, on a sales perspective, could be average order value, clickthrough rates, cost per click, for e-comm.

Update your personnel cost. Always a key variable. Based on attrition. Don't forget attrition. Variable comp, bonuses, commissions, things like that. And then high-level for the less material category. You can roll things up. You don't have to get so granular that you're spending 500 hours on this stuff. Let's just do quick, high-level numbers for, it could be insurance, it could be G&A, it could be other types of expenses in the business that really aren’t material.

Here’s another example. This is a five or six different revenue line business, and here’s what the forecasts look like. And then what we did is, when we get into the cogs, what are the percentage of revenue for each one of these line items, and what does that look like from a total cogs and then gross profit perspective. We did this, again, on a 12-month rolling basis so that we could take a look at, “Well, what does all this detail look like?” And the management team worked hand in hand to develop this information from the various departments.

On the e-commerce side, this is, again, we got really detailed. But we wanted to really understand, how were these revenues being generated in this forecast. And so, what we did is we created the knobs and dials that say, “Hey, if our cost per acquisition is $52.74, what does it look like if we can lower that over time?” as an example. And what do the revenues look like from new customers?

And then there's going to be repeat buys, new buys, etc. This is, again, on the e-comm business. Amazon revenues, etc. This is the kind of detail that enabled that management team to really understand the knobs and dials and the levers that they had at their fingertips to affect revenue and revenue growth.

And then we did the same thing. It gets really detailed. There's a whole operation plan, operating expenses, payroll. Had all the information across the business. How many people are we going to need in accounting, and how much those people cost on an annual basis. Again, with benefits and taxes included down below. We did this month by month. And then we can say, “Okay, we’re going to need X number more if we have to.” This is just on G&A, so there's marketing and product, etc., down below.

Then, on the revenue side, in order to figure out how you're doing in terms of revenues and where our revenues could be, well, what are the marketing drivers? What's going to actually help you generate revenues? What's your revenue forecast look like based upon the marketing drivers?

Now, again, in this one, this is a paid search. If we spend this amount of money, and we have this CPM rate, and clickthrough rates, and cost per click, etc., conversion rates on our average order value is this, then that eventually is going to translate into revenues of, in this case, 85 grand, all the way up for a total of $1.2 million. But then, more importantly, or as importantly, what's our return on that investment?

How do we know [chuckles] that we should be spending this? Well, let’s measure what's our return on ad spend. And we can do that across every one of the channels. This company has eight different channels that they spend money on. And so, we did this analysis on the forecast so that they could see, “Okay. Well, which one of these should we be spending more money on, and which one of these should we scale back?” And they ended up getting rid of a whole channel based upon this analysis. That's all part of that forecasting process.

And, again, by bringing together, in this case, marketing experts and the management team, they could then have a whole discussion about, “Where should we be investing in this business?” And then what we do is, on an ongoing basis, “How are we doing actuals?” And then we reforecast based upon these actual results. So, for them, every month — did you have a question?

Female Audience Member 3: A question I had the last time. There was a slide where you were talking about attaining the forecast. You talked about looking at the actual deals in the pipeline, things like that, to update for the forecast. If you're in a really high-growth company, are you trying to draw from the actual deals in the pipeline, or is there some reference point you're integrating in here, which is your plan, which is what your targets are? How does that work into —?

William Lieberman: What we do is, depending upon the size of the deals, so, in some companies, you could say, “Hey, look. We’re going to close 30 clients.” Some companies, “We’re going to close thousands.” So, depending upon how big and how many there are, if you have fewer, larger deals, then what we do is, in the pipeline, we actually name them in the forecast. There’d be a rollup of, “Hey, we think we can close Pepsi, and IBM, and GE, and here’s how much the contract value is probability-adjusted, and here’s kind of what we think when it'll close.” And then separate from that, “We think we’re going to close 10 large, 200 mediums, and 5,000 smalls. We’re going to do two larges a month.” And you get into that kind of —

Female Audience Member 3: Integrating that in the forecast?

William Lieberman: Absolutely. Absolutely. So, what does this look like for them? Tracking month by month, the whole management team looks at, "How did we do versus last year? How did we do versus plan?" Back to that budget. Plan, in this case, is a synonym for budget. How did we do versus what we thought we were going to do at the beginning of the year? And how did we do versus last year, from a revenue perspective, expense perspective, profit? And then their KPIs, subscriptions. Subscription model business. What are subscription revenues, new customers, and returning customers? Those are the KPIs.

And then we look at that every month, and then the prior three months, on a rolling three-month window. How are we doing year-to-date? And then full calendar year is, how did we do from an actual perspective? Let's say we're halfway through the year. Our actual results for halfway through the year, plus a new forecast, or the latest forecast, for the remainder of the year. Given where we are today, we think that we'll end up, in this case, one percent below budget. And then we're going to try to fix that. We're going to try to get back to budget, if that's really important, based upon where we are today.

Then, they do all sorts of things. They go, "What's our actual results versus our latest forecast? What's our year-to-date actual results versus our budget? How did we do this month versus last year?" Then there's three months, you know, this goes kind of out. But this is if we spend a whole day, the management team, and we go through our results in a few different snapshots, because there's different people, and they have different decisions to make. And then they go through in detail on every line item. And they're super geeky.

Female Audience Member 6: Is there a software that you and your team prefer to use to do all of this with?

William Lieberman: Excel. Love Excel [laughter]. Love Excel.

Male Audience Member 1: Google Sheets.

William Lieberman: Google Sheets sucks [laughter]. Just my opinion [chuckles].

Male Audience Member 1: Just a quick sidebar on that. Do all your first systems on a piece of paper. Do your second ones using Excel or Word. Do your third ones using a software application. Really kind of work into, like, everyone says to go to the best software. It's really, try to figure out the model first, and then go to software second. My dad could outsell anybody using a stack of business cards, a pen, and a phone. He doesn't need Salesforce. I think we often go from business cards to Salesforce, and so, if we take the business card model and put it into a spreadsheet for now. And then once you know what you're tracking and how you're doing it, then you go into the next option.

William Lieberman: The reason we use Excel is because we customize everything that we do. There is actual budgeting and forecasting software out there. There's some super high-end ones, like $10, $20 million kind of thing. But unless you're spending a ton of money, those applications tend to be very difficult to customize for the exact thing that, like that dashboard, you can never do. Things like that, that dashboard that I showed with the ovals, that's Excel. That's just an Excel spreadsheet.

Male Audience Member 1: And then hire an outside person who's going to do your dashboarding for you in Excel. Start with that.

Female Audience Member 6: So, we're well past the point of spreadsheets —

Male Audience Member 1: Okay.

Female Audience Member 6: — and we're already in the end system.

Male Audience Member 1: [I'll throw it in the parking lot 0:33:46.5]. We'll talk about it. We'll go into that next.

William Lieberman: I've done businesses for $150 million using Excel. I mean, you've got to get input from a NetSuite, or SAP, or whatever it might be. But in terms of the forecasting and budgeting process, you can do almost any business in Excel.

Making sure you have clean data. Again, back to *Dilbert*, what does the data tell us to do? We only have bad data on this. Does the bad data suggest we should do what we wanted to do anyway? Well, yes. That's called good data. Making sure [chuckles] that you have the right information is critical. How do you make sure you have the right information? You audit.

Now, audit's not like an independent, $100,000 exercise, unless you have a really, really large business. It's really just making sure that you have the right information in your system. And they're simple things. Does your retained earnings in your accounting system match your tax returns, tax affected? Is all your cash reconciled? I mean, basic kind of stuff. Are you capitalizing your assets correctly? Do you have the inventory in your accounting system that actually is in your warehouse? Do you have other assets in there? Are your credit cards reconciled? Do you have intercompany business loans back and forth?

People get hung up on this a lot, because when you have [laughs] a CEO that has three different businesses, and they're moving cash back and forth, this could be a big pain in the ass, and you can make big mistakes here. So, that's an area that can trip people up. So, making sure you clean up your books. Whatever you do, don't delay. It just makes matters worse. If the problems exist, they'll just multiply over time. Get outside help. And, typically, if you have a problem with your books, and you have somebody internally doing your books, having them clean it up isn't going to help. They're the ones that caused the fire. And then make sure you quickly get in, assess what's going on, and remediate, because there's a lot of things that will be a problem.

Real quick, cash versus accrual accounting, because this comes up. Cash basis accounting recognizes revenue when the cash is received and when expenses are paid. It's simple to maintain because it's easy to determine when something happens. You wrote a check. You received a check. That's cash-based accounting. It's really easy to track. And there's lots of companies that, you know, the dry cleaner on the corner. Retail businesses are typically cash-based accounting.

But accrual-based accounting really is better because it shows you when things, revenues and expenses, are earned. You really get a better picture of the profitability of your business, not when the cash is in and out of the business. It gives you a realistic snapshot of the profitability and the health of the business. Doesn't provide you cash flow, but there's ways of doing that. If you have the right accounting system, you can generate cash flow reporting and cash flow forecasting.

From an accrual basis, if you make $1,000.00 and you incur $750.00 of expenses, your net income, $250.00 of profit. If you're receiving, so you bill out $1,000.00, you collect $600.00, your net receival is $400.00. In this case, you've collected $600.00. You spent $750.00. Let's say you actually spent it. That cash flow would be minus $150.00, but you're really profitable. If you look at it in a cash basis, “Oh, shit. We lost $150.00.” Well, that's not true. You really are a profitable business. This is just a quick little sidebar that I want to make sure everybody understands.

Cash. Cash is king, kind of thing. [reads *Dilbert]* “Hey, you must be the cash cow I keep hearing about. You must be making cash right now.” “It doesn't work every time.” [laughter] Right? What we often do is, on the cash forecasting perspective, really simple. This is the obvious, or the merely obvious. Never run out of cash. People oftentimes are so focused in on growing sales that they lose sight of, “Hey, do we have enough liquidity in the business to really operate successfully in a healthy manner?”

Do you know your cash balance at any point in time? Lots of people do. Some people don't. And they get hung up at the end of the month when they’ve got to make payroll all of a sudden, and it’s a quarter where there's a lot of bonuses or commissions to be paid and, “Oh, shit. I don't have enough cash right now.” Cash forecasting, back to the forecasting, is critical. Either you've got to do it, or someone’s got to do it. You can't just hope that it happens.

You don't manage from your bank balance. You know how much cash you have in the bank. But what's your cash forecast look like? How much are we going to need over the next three months, six months, nine months? Especially if you have a goods business. You're selling goods, you have suppliers, and you have a supply chain. You have supply chain disruptions from coronavirus, or whatever it might be. Those are things that you have to incorporate. Inventory management. Those are all things that need to be incorporated in your cash flow forecast.

You need to know where your balance is going to be six months from now. Cash flow problems don't just happen. And you absolutely, [chuckles] positively, have to have a cash flow forecast. It’s super critical. If you eliminate this problem, you guys can focus in on what you do best. If you know that this is humming, then you can focus on growing the business in a successful manner.

Net cash flow. Sources of cash. Uses of cash. Pretty simple. Sources of cash. Collections from customers, selling assets if you have to, borrowing from a bank, getting outside capital investment, either equity or debt. Uses of cash. Paying for the operations of the business, capital expenditures. It’s why we talk about capital expenditures.

Again, for people that are buying assets or have heavy cap ex businesses, repaying debts or dividend, or distributions to the owners. So, lots of times, especially like an LLC owner says, “Hey, I need a million dollars to pay my tax liability next month.” So, oops. Where is that coming from? We need to forecast what they might need on an ongoing basis, and hopefully get them money along the way so it’s not just a shock to the system at the end.

I've done, there's simple and more complex. But cash forecast, this one, when money is really tight, what do we do week by week? Smaller companies, I need a weekly cash forecast because I'm going to have to make payroll every two weeks. What are my sources of cash? Well, I could draw down my bank line, or I'm going to collect invoices. And how do I know which invoices are going to be collected when? There's a little bit of an art there. And then all the uses

of cash, in addition to the operating expense of the business, but paying back the bank facility. And then, therefore, what's my beginning cash? How much am I using?

And then what's interesting is, what's my line availability at any point in time? What I have done here is I say, “Okay. So, how much cash do I have in the bank? Great. How much bank line availability do I have, and therefore, what's my cushion?” If I know that I can use some money in the bank, and I know that I can draw down a line, if necessary, I can build up a cushion so that I know in an emergency, if I had to write a check, how big a check could I write.

What are the types of activities you could do to generate cash? You could borrow credit cards, delay payments, push your payables out, reduce discretionary spending, factor your receivables. Expensive, but relatively easy to do. Reducing nondiscretionary expenses. So, renegotiating your lease. Manage your receivables. Accelerate your collections from your customers. Maybe have them prepay. Let's say you're in a subscription model business. They're on an annual contract that says, “I'm going to pay you monthly.” “Hey, I'll give you a 10% discount if you pay me the rest of your contract today.”

Borrow from the bank. Increase your prices and fees. I've done this. I've done almost every one of these. Is there other stuff we can sell? Again, this is getting down to the harder, longer lead time. But is there other stuff we can sell into our customer base? And can we renegotiate some vendor contracts? And then sometimes, I've even done this one, client financing. “Hey, client, because we do so much business together, and you want us to be successful, will you help finance some of the business that we’re doing with you?”

I'm going fast. But raise your hand if you have any questions. Receivables. Ensuring your contracts are clear on payment terms. If your contract says, “Hey, I'm going to collect net 30, make sure it’s in the contract. Make sure it’s on your invoice.” As soon as a new deal is signed, coordinate finance and accounting teams. This is really important. Have your finance people talk to the client’s [laughs] accounts payable people so they know who the fuck they are. Right? And so, you could say, “Hey, if I have an issue, I can call Mary. Mary knows me.” And so, they will enable a conversation much more effectively than lobbing in an email. And this is good, again, for companies that have a smaller number of larger customers.

Ensure all the invoices have the purchase order numbers. Is that on the invoice? Have your account managers review the nonrecurring stuff so there's no surprise from the customer. Everything should be electronic. You should get paid electronically. Why is anybody sending checks these days? Accept credit card payments if and when you can. And make sure you look at your AR every week, especially the ones that are really long and outstanding.

Then, late payment. And there's a whole bunch of stuff you could do here to ensure that when there is a late payment and a late payment situation, what can you do to either help, or accelerate, or get the cash in the bank from your customers. There's a whole process that typically you put in place to make sure that you manage late payments in an effective way, and your last resort is to go get a collection agency.

What are the ways that you can generate cash? Cut discretionary expenses. T&E. Cut headcount. Cut salaries. Maybe give equity in lieu of salaries. We’ve done that. Review all your bills. Renegotiate vendors’ terms. Delay payments.

Measure and report on financial metrics constantly. Sometimes weekly, sometimes monthly, depending upon the state of the business. Manage your client's expectations starting with sales. So, the salesperson should say, "Here's our process. Here's how we work." Tightly manage your receivables. Cut expenses quickly if a cash crunch is forecast. Make sure you have a credit facility in place. Expect the unexpected, because it always happens. There's always something that comes up. Who could expect a coronavirus?

Have outside advisors and listen to them. Then, working capital. Real quick, assets, liabilities. The difference between your current assets and current liabilities is working capital. And all this is managing your assets so that you really track how you're doing.

Okay. I'm going to stop here, because there's probably way more detail than everybody wants to see right now. But I'll open it up for questions to make sure that we could have enough time.

Male Audience Member 3: Rolling cash forecast, how long?

William Lieberman: What's that?

Male Audience Member 3: How long of a rolling cash forecast?

William Lieberman: That again, depends upon how your business is growing, and the velocity of the business, and how your working capital is changing. Typically, we'll look at a three-month, go forward, on a cash flow forecast so that you have enough time. You're looking far enough out, but you have enough information so that you can make the optimal decisions about the next three months. Meaning, if I look out 12 months, the world could change 12 months from now. But three months is short enough to really be precise.

Male Audience Member 4: For budgets versus actuals, how much variation would you say is an, "Oh, crap," moment? "We need to do something."

William Lieberman: Ouf. So, to the downside, I assume. If you're looking at revenues, and your revenues are off by 10%, that's kind of an, "Oh, crap," level.

Female Audience Member 3: What times of year do you usually do your annual forecasting?

William Lieberman: On an annual basis, it depends upon when you're closing your books and your taxes. Typically, people do that calendar. So, we would kind of start, again, it depends on the size of the business. Some businesses start in August, larger businesses. Medium-sized businesses are kind of in October. Small businesses, November.

Female Audience Member 3: So, prior to, you do a state of taxes as part of that?

William Lieberman: Yup, absolutely. Yeah. Taxes are critical to make sure that you have the cash [laughs] to pay them.

Female Audience Member 3: Mm-hmm.

William Lieberman: [laughs] Either the arm from the owner, if it's a pass-through entity, or from the corporation perspective.

Female Audience Member 3: One of the issues that we discovered in the last couple years is that, we recently acquired significantly better tax folks, and our tax savings have been

significantly more than we expected. So, we ended up doing a lot of forecasting after tax season because our cash situation is so different.

William Lieberman: But now that you have a good tax team, they're going to be able to forecast what your tax liability is going to be.

Female Audience Member 3: Yeah, yeah. It's getting back —

William Lieberman: Yeah.

Female Audience Member 3: [laughs]

William Lieberman: So, maybe that was a one-off year. But on a go-forward basis, you'll be able to incorporate —

Female Audience Member 3: Should be better.

William Lieberman: Yeah.

Male Audience Member 1: I have a question. With typically doing budgeting on a percentage to historicals, is there some place that does industry-specific percentages that I'm unaware of, or is everybody kind of doing it off of historical —?

William Lieberman: You can get benchmarks for your industry, depending upon the industry. There are services out there that you can buy that data. It's expensive, but you can buy that data.

Male Audience Member 1: How expensive are we talking? Like, 50K-plus?

William Lieberman: No, it's probably not 50K. But it could be 25.

Male Audience Member 1: Okay.

Female Audience Member 1: Sage is, their base data, depending on what industry you're in, is usually pretty good. It's like sub 5K.

Male Audience Member 1: Thanks. How do you spell that?

William Lieberman: Sage. S-A-G-E.

Female Audience Member 1: I had a question on ROI. When you're acquiring practices, which are people, what's the best way to track ROI in that investment? You put in your recruiting cost associated with that acquisition, and then the labor, somehow?

William Lieberman: What's the business?

Female Audience Member 1: Financial services. And acquiring —

William Lieberman: You're going to acquire a small financial services firm —

Female Audience Member 1: Right.

William Lieberman: — and you want to know the ROI on that acquisition?

Female Audience Member 1: Yeah.

William Lieberman: There's a cost. Obviously, you have to buy that practice.

Female Audience Member 1: Right.

William Lieberman: And, to your point, recruiting. And there could be other costs to the transaction.

Female Audience Member 1: Right.

William Lieberman: Then, what we look at is, maybe over three years, how much revenue are they actually generating, net — actually, operating profit — are they generating from that practice. And then you can kind of do that math. Or five years, whatever your expected time horizon would be for them to stick around [chuckles]. So,, are they going to stay five years? Are they going to stay 10? Are they going to stay two?

Female Audience Member 1: Right.

William Lieberman: Then you could do . . . What's nice is if you do that sensitivity analysis, how long do we have to keep these people in order for us to get a [chuckles] positive ROI on a risk-adjusted basis to pay for that acquisition. So, "We need to keep them X years in order for us to generate a 20% annual return," or whatever it is.

Female Audience Member 1: You should keep it almost separate in your books, because it's merging in with your existing, like, for us, we're merging it in with our existing practice, so we may acquire practice. It's merging in with our practice, but we should somehow keep separate records of —

William Lieberman: Absolutely. You need to know, like in your world, assets under management. By franchise, or whatever, by office.

Female Audience Member 1: Right.

William Lieberman: Yeah. Absolutely.

Female Audience Member 1: Okay.

William Lieberman: You don't need separate accounting. You just need to literally track how much assets under management, and therefore, what are the revenues associated with it. Now, depending upon how many of these you have, you can easily do that in your accounting system. If you have thousands, it gets a little trickier.

Female Audience Member 1: Okay.

Male Audience Member 2: A question looking at global growth with multi-country, multi-currency. How would you manage that in the books? Because you've got the core entity for us is going to be investing in other countries, which is going to dilute the position of that core business, because the cash is going into other investments.

William Lieberman: What we do is, you can have a home currency. Then you're going to translate everything back to your home currency. You make the investment decision back in the home currency. You're not going to try to forecast FX rates, because if you could, you wouldn't be doing [laughs] what you're doing.

You say, let's assume FX rates are going to remain where they are, and then we're going to translate everything back to our home currency. And then we're going to look at how much

investment we're making country by country, or office by office, and figure out which one is generating more or less profitability, where should we make more investments, where should we scale back. But you have to do it on a consolidated basis in that home currency to make sure that at least you're doing an apples to apples comparison.

Male Audience Member 2: Yeah. That makes sense.

Female Audience Member 4: Are you using QuickBooks?

Male Audience Member 2: No. Zero.

William Lieberman: Zero?

Male Audience Member 2: Yeah.

William Lieberman: Wow [laughs].

Male Audience Member 2: It wasn't my choice.

Female Audience Member 4: You should be able to develop classes underneath, so what you can do is run a consolidated of everything, and then pull out each P&L by country so that you can see each of them broken out on their own, and then everything in one.

Female Audience Member 5: [unintelligible 0:53:41.6] does that. Got to do it manually [laughs]. I do it every month [laughs].

Female Audience Member 4: Just convert to QuickBooks online. It'll cost you a couple thousand dollars to convert it. It's got much more functionality.

Male Audience Member 2: Okay.

William Lieberman: And even QuickBooks Desktop, if you're doing a lot of multicurrency.

Female Audience Member 4: Yeah.

William Lieberman: QuickBooks Desktop would be even better. Anything else? Going once. Going twice. Awesome. Thank you [applause].