Ep #285: Burt Copeland - Do You Need a CFO Coach?

Full Episode Transcript

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Dr. David Phelps

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David Phelps: Good day, everyone. This is Dr. David Phelps, of the Freedom Founders Mastermind community and Dentist Freedom Blueprint Podcast. Today, I have a gentleman who has actually become a friend and a mentor. Like everybody in life, the best people I seem to find are people that are referred to me by other people. And there's no difference in that connection with this gentleman. Today, I have Mr. Burt Copeland. Burt, how are you sir?

Burt Copeland: David, I'm doing great. It's good to see you as always and always enjoy our conversations. They're both enlightening and entertaining.

David Phelps: Well, I love it that way too. So people know, Burt is the founder and CEO of New Life CFO services. We'll talk about what a CFO is, what the services are in just a minute. But I want to say before I go on that I consider Burt, one of my key team board of advisors, if you will. I think every entrepreneur, every small business owner, I don't care what you do, where you are. You need to have a team of advisors and that could be a lot of people and it doesn't have to be full time. When I say team, they don't have to be employed by you. Could be outside services and Burt has a unique position, and we'll get to that in a minute. That he has the experience, but also has created a company, New Life CFO. That allows for smaller businesses to have the same opportunity to work with a true CFO, Chief Financial Officer, rather than having to hire one that probably wouldn't work out on an ROI basis.

And that's how we've worked with Burt with Freedom Founders over the last three going on our four years now and it's just been eye opening and a pleasure. So let's dive into the context here, let me give a little bit of background. Burt started his career in accounting, obtained a CPA, worked in the audit group of a big CPA firm which he describes as being skinned alive with a butter knife. Now, Burt, that brings chills at my back, but I'm afraid that probably some of our listeners today, some of my colleagues in Dentistry may feel the same way. And if you do, it's not abnormal, but there're ways to fix it. There's getting by people on your team, there're ways to fix this, right? Fortunately Burt was recruited to work in the consulting side of the CPA firm and they focused on turnarounds, workouts, bankruptcy's, litigation support.

Where Burt really truly learned that cash is king and that operations and sales produce real net income, not accounting. So today with New Life CFO, you provide fractional CFO services, which include an outsourced controller and accounting, business intelligence dashboards. Well, we got to get into that a little bit today because that's something that most small business owners don't have a clue as what that looks like. Provide those and you also provide these services that really fit an avatar that has a revenue run rate of about five million to $300 million per year. That's a pretty wide spread, but we can talk a little bit about why that is.

But let's just... Another thing I know about your Burt is you do have a lot of experience, boots on the ground experience. You're not just an intellectual that has studied hard and connected all the dots, that you actually like all of us, you went through the 2008 downturn. Give us just a short snippet of what you were doing then, and the great experience you have coming in at a downturn because who knows when we hit the next downturn. But I'd love to have someone on my team that's seen one, so give me a little bit of that background.

Burt Copeland: Great question David, and it's interesting because it relates to why I even started New Life CFO and what we think is the value differentiation. So in 2000 I was hired to be the CFO of a fairly large construction company, about $75 million and with multiple locations throughout the Southwest. And after a couple of years, I was promoted to president and then ultimately was offered the opportunity to buy the company or parts of. I ended up buying the North Texas operations, which at the day that I closed on it, it was about $7 million in annual revenue. Well, within two years we'd gotten up to $14 million. And in the third year we're well on our way to 20 plus million dollars. So, growing three X in three years in a construction business, we were quite proud of ourselves, until the great recession hit.

And I speak to a lot of the folks that you speak to a lot, in the golly it was one of the most painful, shocking things ever. I literally went from in March of 2000 having monthly revenues of $2 million, I'm sorry 2008, in April of 2008 having revenues of $325,000. The big problem was, that was $800,000 less than my breakeven point. So literally within 90 days, I'd lost over seven figures cash, that's where most of this gray hair comes from.

David Phelps: No doubt.

Burt Copeland: But I was very blessed because I had some great people with me and I already had that background in turn around, reorgs and everything else. So I applied that same surgical knife to my business, got it turned around with lots of prayers being answered and lots of great people surrounding me. And 2009 ended up being my most profitable year ever. But from that experience I was like, "Oh my gosh, two real big observations. My revenues were big and lumpy, we had a big project, we didn't. And the other thing that I observed is if I can step in this bear trap and barely get out, what about Bob and Susie, the entrepreneurs? And they don't understand the turnaround or what their financials are really telling them." And that's when I became passionate about what is referred to as outsource CFOing. And I'm a little bit of a unicorn in that I am what I refer to as operational finance, an operating CFO.

Which means that having served as a CEO in the past, I kind of understand how the world works on the other side of the desk. You have to manage sales, you have to manage operations, you have to manage marketing. It's not just your balance sheet and income statement, so that was really the genesis of our go to market of New Life CFO. In that we are operating CFOs that understand the nuances and struggles of managing a business and not just a technical aspect or a profession. And we know what it takes to manage all those things and come out alive. In fact, all my CFOs have one of the things in common. They've either been a COO, a general manager, president, or have owned their own company in addition to outstanding background as a CFO.

And from that what we do is we try and get involved and understanding A, what is your goal? And then help you map a financial path towards your goal. And I really don't care, I'm not here to tell you what your goal is. I'm here to help you do a nice navigatable path to that goal. And that was really the genesis and it was from that, that this operating finance deal has really caught fire. And it has become very popular because it adds unique insight to the CEOs in how they manage their business because most finance people don't talk like we do.

David Phelps: Exactly right. And I'm probably sure that everybody listening to our conversation today likely has at least a bookkeeper or has an accountant, has a CPA. Burt, you are not replacing that person, that CPA, in fact you don't do taxes. Working with a good CPA provides typically, historical financial data that's necessary, more necessarily probably to pay taxes than anything else unfortunately. It's more for the IRS and a good CPA, maybe that really can focus on a niche sector in the marketplace may actually sit down and do some strategic planning. But I really haven't found anybody in my life and I've had a lot of experience where that CPA firm, that accountant really does what you do. And I think that's the differentiation, so you're not replacing anybody. You're adding that operational finance component.

And for me Burt, what you brought to the table... Again, I'm not saying that dealing with taxes is not important. It is. But I love the business side where I actually get to understand through your help, and you're helping me get clarity. What dials can be turned and how they can be turned? See that's more sexy to me, taxes are taxes and I don't like to pay them but we just pay them. But you even showed us how it's okay to actually pay taxes if you're profitable.

Burt Copeland: If you're making money.

David Phelps: Right, because a lot of people try to play the games of, well some kicking the can down the road tax for all this that. I'm not saying it's good, bad or otherwise but what I like about what you provide for us is a pathway to maintaining profitability. And knowing which styles, which metrics to focus on, leading indicators, lagging indicators. Stuff that I knew esoterically in my head, but no one had actually really presented to me in a way that made sense for me as the CEO, or the owner of the company. You do that so well, you want to add to that from your experience in working with people like me.

Burt Copeland: Well, it's really interesting because you are a very typical... I don't know if you're a typical dentist because I don't know enough dentists to know, but I do know that you're a very typical entrepreneur. So the typical entrepreneur and the typical accountant, they don't speak the same language. So accounting speak, I used to tease is this, accounting isn't all that difficult. We add, we subtract on crazy days we might do some division and multiplication, but we really make it very messy by the language we use. And we want to show everybody how to communicate in the world by a big spreadsheet or a financial statement. Well unfortunately the average entrepreneur is a visual or tactile learner. They are not somebody that's going to look at a spreadsheet and go, "Oh, well, this makes perfect sense to me."

So, once you understand that you start to communicate differently. I think you've probably experienced when I'm visiting with you and Candace and the rest of the team that I talk in pictures. I verbally paint pictures about what's going on and we use some very great tools to show graphically how people are doing financially. And we tie that in with certain decision metrics and I emphasize decision metrics, not financial metrics. We have a saying here at New Life that your financial statements, your historical financial statements. They're nothing but a reflection of your people, decisions, behaviors, processes, and systems.

Therefore, if you don't like your financial results, then you need somebody to help you understand what the change with your people, their behavior, their decisions, processes, and systems. Yes, that's strategic. Yes, it's tactical. And what we do is to help highlight where things are broken and then help to sequence when to fix, what to fix to create resources. So you can continue to either improve or fix the next thing that's broken.

David Phelps: One of the things that you have counseled some of our group at Freedom Founders on is what you call title inflation. Small business entrepreneur, Susie, or Jenny, Nancy come in as a bookkeeper, to do QuickBooks and gosh, do a great job. They're just really great at data entry and pretty well get it right. And they may even actually be able to do it pretty darn well, with the bank statements. Then you need to elevate that person and put them into more of an account manager position, so you elevate Susie to that position. Or it could be the account manager goes to more of a controller as you grow her, or goes to an actual CFO. The problem as you talk about is just elevating that same person, where does that break down? Why is it not good to elevate from within your company?

Burt Copeland: Well, it can be if you have the right person, but you need to understand that if you hired me when I was a bookkeeper and I'm an outstanding bookkeeper or can be right. As you continued to promote me, what I continue to be is likely an outstanding bookkeeper with more experience and more training. But because I've only worked in your company, I've never really worked anywhere else as a CFO. So a CFO really starts to play with the future, an accountant is still very much either in the transactions or in the last month. In fact, we frequently talk about that most accountants jobs are really a manufacturing job. And what they're responsible for is manufacturing a set of financials every month.

The CFO's job is to make, use those financials to navigate the future, avoid the rocks, the landmines, if you will. And to help make sure the ship gets to the other shore filled with bounty so your CFO should be looking forward all the time using the financial information, but looking forward. And quite frankly, if

Bob, the bookkeeper who's been with you 20 years and is now outstanding. You need to appreciate the fact that he's only seeing one set of processes and that's yours. So for Bob or Susie to come in and go, "Golly, I've dealt with this situation before. I've seen it three times in the past and here's some really unique solutions that I know work." Is terrifically, is tremendously different than the person going, "You know what, I've never dealt with this before, but I hope it works."

And even if they're a bright person, having that experience of letting them stub their toe elsewhere. Then invest that learning of failure in your company to lead to success is very powerful.

David Phelps: Some of the conventional, financial, historical documents and we'll talk about, when it's more future projecting. But you were really good again, using visuals to help us understand what these financial metrics do. So the income statement, the profit and loss, your context for what that that document provides for us is about rate of speed or growth. You say, it's how fast you're going. You want to give us a little bit help on that.

Burt Copeland: So your income statement, I parallel that to an athlete because I like to talk in pictures here David. So your income statement tells you how fast you're going. I'm going five miles an hour, I'm going a hundred miles an hour. Your balance sheet, which is frequently the least looked at document by most entrepreneurs really tells you, can you sustain that pace? And that is crazy powerful because where most companies either go through a burst of speed, they think they're doing great. And then things get wobbly and fall back down to their previous level, it's because their balance sheet, they run out of capital. They run out of cash, things start getting too thin. And then their focus gets on trying to solve all these wobbly wheels versus having enough good balance sheet to move them forward.

Now, I don't expect the average entrepreneur to understand a balance sheet like I do. So what we do is we create a couple of very basic metrics that lets them know relative to their capital structure. "I'm okay, that the company is okay, continue hitting the accelerator. Or Hey, we're getting a little thin on our capital structure relative to what we're trying to do. So let's slow it down. Let's reexamined. Or Holy smokes, we need to hit the brakes because we're about to go over the cliff and we don't have enough cash or working capital to sustain this activity."

David Phelps: Poor projections, something that is not something that a typical CPA provides, but your cashflow projections. Why is that important and how do you use the financials to give a projection to us? Based on the current business and the goals that they have in place?

Burt Copeland: A little bit of that answer is I'm going to say it depends. And why I say it depends, is it depends on how messed up your books and everything else are. How messed up your business is. Let's say that you have a healthy business, what we're trying to create in cashflow and the various other key metrics is visibility towards your future. So if I tell you David that, "You're only good for cash the next two weeks before we have a problem." Then that's going to redirect your focus to how do I replenish cash in two weeks? But by projecting cash and allowing you to start making forward looking decisions to manage that in advance, it means that we're less likely to run into a crisis. When, a crisis hits everything stops.

So with some companies that have messy books, we might start out with a three or four week cashflow projection. To make sure that if we need to collect stuff, we have time to collect it. Then we're really going get to a 12 week, a rolling 12 or 13 week cash flow projection. And when that's done well, we can really start using metrics to identify even further timeframe. It might be your pipeline, it might be your backlog, it might be your total liquidity within your company. But having somebody that's constantly saying, "Hey, if things don't change, we're going to be out of cash in 30 days." Is critically important because you need timeline to make well executed decisions. And you need foresight to know when it's time to pull the trigger, versus when it's time to say, "We're still okay."

David Phelps: Burt, one of the metrics that you really helped me and our team focus on was something, I hadn't heard this term. I understand what it is, I know the term and the short acronym for is op liq. I didn't say salt lake, I said, op liq, operational liquidity. Let's talk a little bit about what that is and why that's important?

Burt Copeland: It's important because if I use the words quick ratio or asset ratio, I've just lost everybody in the room, because nobody knows what I'm talking about. And I'm including some CPAs. So when I talk about operating liquidity, what we do is we take really your receivables, a subset of your receivables. Really everything, 90 days and below and your cash and we take that and we divide it by the average cost of goods sold and operating expense for the last three months. What that tells us is the liquidity we have in the business to fund our operations. Ideally with most companies, we want to see three months of liquidity to fund their operations. And we also look at what's the balance of that liquidity between AR and cash. So it needs to be a nice balance, if that balance gets skewed, like it's all AR that's a problem.

But if it's staying real good and we're at three months, we're in a nice, safe zone of our cash is going to be replenished on a very regular basis. If that starts getting into two months of operating liquidity or one month, these are early indicators that we have liquidity issues that we must address ASAP. Conversely, if a company has really great liquidity and that entrepreneur, she's wanting to go out and buy a new yacht, then we go, "Okay, well we have four or five months worth of operating liquidity. So you're now okay to take X amount out of the company without jeopardizing the cash cow, that's generating all these resources."

David you'd be stunned at how often an entrepreneur will strip the capital out of their business because they think, "Well, you know what I haven't really paid myself in a while. I'm going to go out and do something big because that feels like the right thing to do for me being the business owner." And they almost blow up their business because they just ripped out the very capital. They need to make sure that the next three months or a year are going to be successful.

David Phelps: That's so true. And then you, you know me I'll just open this up because I'm the other side, I'm the guy that's like, "I want to stash so much there because I just caution and conservative. And you have to sometimes tell me, "David, if you want to take up a profit distribution, it's actually okay." So having that metric gives me peace of mind that it is actually okay to have a reward once in a while for good work well done by the team, so I love that one.

Burt Copeland: And there're few things more enjoyable than a big check coming out of your company.

David Phelps: So as people are listening to this today, you may be driving in your car, I don't know where you are. And I know sometimes listening to financial metrics and stuff, it does make your eyes glaze over. Look, I'm no different but Burt, manages all this so sure he'll help you and you can understand as much of this as you want to. But what I know is he's got my back and I don't have to be as deeply involved. He gives me the dashboard metrics that I need to know, we have those conversations. So on a regular basis, I know exactly where we are and that just gives me a lot of security. Burt, give us a few tips for us as entrepreneurs as to the signs that we may be having some accounting problems. What are some typical signs that you find with businesses when there're some problems with their accounting and their bookkeeping?

Burt Copeland: Well, that's a great question. And I'll tell you, these are not in some order of prioritization. They are just in top of mind, topics that come about. One of the first signs is you're not getting your financials timely. And by timely for a dentist office, I would think that's week one. But boy, if you're not getting them until the end of the month, or the following month, or even later, it's a huge problem. It's probably the number one red flag that your accounting processes are very broken or your accountant doesn't know what they're doing. The other thing is when your accountant can't really explain what happened this month versus next month. It means that they're so into the weeds on the transactions, they're not looking at to make sure that the transactions make sense.

And it leads to one of my favorite sayings. "It's really hard to make good decisions on bad data." And if your accountant isn't well versed on why the numbers from last month to this month equal X, Y, or Z, that's a problem. The biggest issue where most entrepreneurs know that their accounting is jacked up is when their bank says, "This doesn't make sense." And that's a huge problem because now it's visible to an outsider for things that were not caught either by the entrepreneur or by the entrepreneur's accountant. So some of the things that we always coach and advise on, is a pause, whether you understand your own numbers or not, you need to have a financial summit. A meeting about last month's results, preferably before the 15th. Carve out an hour or two on your schedule and you need to ask every question in the world and hopefully either your accountant will know them, or they will become very quickly trained to know those answers before they walk in the room.

Here's the other thing that you should do, when your accountant or CPA or bookkeeper is ready to publish the financials and laid them on your desk. The most important thing you can ever do is don't look at them. I know that, that seems counterintuitive not to look at your financials. But before you pick up that package of numbers in columns and everything else you should reflect for about 15, 20, 30 minutes, what happened in my business last month? What do I expect to see here? Did I have a good month on revenue? Did I have more patients flowing in? Did I have to hire a bunch of people, unusual expenses? What happened in my business? So when you have a mental framework to compare the numbers to now, you have a point of reference in which you can ask really good questions on.

But if you're just looking at the numbers going, "Gosh, I hope these make sense to me." You're going to lose that point of reference. So take the time, set it aside, maybe fill out a note pad about here's some big things that I think happened in my business and what I expect to see in the financials. And when you finally open up that stack of paper, it's going to be extraordinarily different, but it communicates to you. Does that make sense?

David Phelps: It makes total sense. It's entirely a different ball game when you are meeting with your financial advisor, CPA, CFO, whoever you're working with right now. And you do that on a regular basis going forward, versus I hear all the time and you do too. "It's time for me to go in and meet my accountant or my CPA to get ready for tax season. It's like okay, but what is that going to do for this year? It's so backwards." So a forward looking approach is definitely the way to go. Burt, I mentioned that your sweet spot for New Life CFO is companies with run rates of around five million on up. And that's really to get the ROI that, that size company can get. Do you want to add anything to that definition or to who might utilize your services or someone like you?

Burt Copeland: I will restrain that bandwidth. Our largest client has been 300 million. It's rare that we're actually that high. So our upper end is 50 to 75 million. And beyond that point, they probably have the need and enough CFO work to hire their own CFO. But we are generally industry agnostic that we dive into all kinds of industry. Because our CFOs have a very diverse background. We typically deal with companies from two million to that, 50 to 75 million. And to do that efficiently, we deploy a lot of technology. And at the lower end we have what we call CFO coach, which really helps to add financial insight. You may not need a CFO to actually do heavy lifting of projects, but you want somebody looking over your shoulder.

To lean in and push up against you going, "You know what, that doesn't sound like a good financial decision let's stop. Let's bet it, let's pause." And you and I have had some great conversations along that, you've been very willing to let me lean in. And that's what people need a lot, is the willingness of somebody to lean in. So the only industries we don't get involved in are heavily regulated. Insurance, banking, things of that nature, public entities, we don't do that because that gets to be more of an administrative task than it is a strategic and financial tasks.

David Phelps: Great. So the place to connect with you obviously is NewLifeCFO.com. Any other contact information or ways you'd like people to connect with you if they care to do so?

Burt Copeland: Well, certainly look at my LinkedIn page, send me a connection invite. On occasion you'll see some of our marketing collateral and suggestions going out there as far as best practices and things to look out for in your business. And know it's not just promotional stuff for New Life, we try and be educators as well as promoters. That's a great way to see what's going on. Then of course, feel free to email me directly at BurtC@NewLifeCFO.com.

David Phelps: Great. That's Burt, B-U-R-T@ Copeland C-O-P-E-L-A-N-D, if you're looking for him on LinkedIn. So Burt, great insights, you've been such a value add for me and for Freedom Founders. I thought that, just time to share you with the rest of the world so they could possibly get some of the value that we've had in working with you.

Burt Copeland: Well David, thank you very much and I appreciate you taking the time out.

David Phelps: Talk to you Burt.

Burt Copeland: All right. Take care.

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