

## Thinking Outside the Bud

Episode 429 - Guillermo Rodriguez

<https://www.thinkingoutsidethebud.com/podcast/high-finance-deciphering-cannabis-economics-with-guillermo-rodriguez-the-virtual-cfo>

### EPISODE TRANSCRIPT

*This is an automated transcript and may contain occasional errors or omissions from the originally recorded conversation. While we review and try to correct any of these issues, we don't catch them all and we can't confirm 100% accuracy. Please use the link above to listen to the episode if you have any questions.*

#### **Bruce Eckfeldt**

Welcome everyone. This is thinking outside the bud. I'm Bruce Eckfeldt, co-founder of virtual CFOs by Anders. We're going to talk to him about cannabis, about accounting, about the complexities that you have when you deal with a cannabis company and you start dealing with the finances and understanding everything from the operational side, the tax side, reporting side.

There's a lot of complexity in any business, but if you're a cannabis business, you've got some extra hurdles and some extra complexities to grapple with. So we're going to talk a little bit about what those are, and really kind of what you can do to leverage finances and accounting and kind of understanding how the numbers and money is moving through your business to kind of improve your business and really kind of understand how you're performing and where you're doing well, where you're not doing so well, and how to really kind of level up the business and grow and scale. So with all that, Guillermo, welcome to the program. Hey, Bruce,

#### **Guillermo Rodriguez**

good to be here. Looking forward to it.

#### **Bruce Eckfeldt**

Yeah, no, it's a pleasure. Before we dive into everything you're doing today with accounting and with cannabis, let's give a little background, I guess. How'd you get into accounting? And then how did cannabis come up? Give us the story? I always find that there's always a story there for

#### **Guillermo Rodriguez**

folks. Yeah. So our mission is to change the way people think about accounting. So I'll dive right into as a virtual CFO. I'm the Lead virtual CFO at Summit. Virtual CFO by Anders, and the number one way that we help change the way people are thinking about accounting is by looking into the future, right? So as an introduction as a virtual CFO, the number one way that we help our clients is to help them look into the future through forecasting.

And I had a journey into how I got to that point, because I was a traditional accountant, right? I went to college thinking I'm going to get an accounting degree do the books for a company. And that's all I thought at that point, you know. And I just said I'm going to get this degree because I wanted to make money. And accountants always had a job and always made money. So that's what I decided to do. And so I went through my career, first starting in as an internal auditor with a large construction company based out of San Antonio, Texas, and I was an auditor number one skill, the word says it, it's to listen. So I very much in my early career, did a lot of great listening, because to be an auditor, you got to take the notes, understand what's going on, to report back on it.

But I quickly got bored with that, and I said I wanted to go into financial accounting and learn how to do the books. And I did that for a few years for this large company, two to \$4 billion company, with a lot of entities. So it gave me a lot of complexity and a lot of experience to do really high level of accounting, but that was all still looking into the past. So about the fourth year in that role as a Financial Accounting Manager, there was a large acquisition that the company was making, and so I got the chance to develop a financial model to work on the forecasting to build a pro forma so the banks could approve the deal. And so that was my segue into really understanding how financial statements work in the past, because you really got to understand how the transactions flow through the financials to be able to forecast it forward. And so from that, I moved into a corporate finance role after the acquisition, and began managing cash flow, weekly cash flow, as well as all the bank accounts, you know, everything that goes all on with Treasury in a business, and moved into a corporate finance role.

And that was really the shift in my career where I started to become more forward, looking into what we do now with our clients. And so fast forward about 2021 the year after covid year and all that I was looking to see like I wanted to do something different. I had been with this business for a long time. Frankly, I wanted to work with small businesses. I think the pandemic really influenced me with the restrictions and just how I felt in a corporate environment. And so I wanted more flexibility working with clients, and I also wanted to work in health and wellness, because that was my passion. And I looked at cannabis, and I saw a lot of the issues with profitability.

That's small business in general, but even more so in cannabis. And I said, Well, that's a good niche as a virtual CFO, a really important part of it is to be able to niche within your industry so that you understand what's going on, can speak the language. And that's a really big difference between a traditional CFO, I mean, an accountant, and a virtual CFO, or a CFO that helps drive the financial strategy. And so at that point, I left corporate, and I started looking into cannabis. And as you know, there's just so many ways into it. You gotta get involved at your local level with policy, all the different things going on. So I. Was living in South Dakota at the time, so I was involved with a group there that was trying to collect votes for the ballot measure that ultimately failed.

But and then I moved back to Texas, I got involved in our hemp industry here. And now I finally decided, I think the national level is what makes more sense, since I'm virtual and kind of all around the country, is I'm involved with the N CIA banking committee now at this point. So that was my journey, but it's been a long one, because as a service provider, these businesses are really facing a hard time with heavy competition licenses being issued, probably a market that hasn't been managed very well by, you know, state, local authorities, and just the non deductibility of expenses as well. And so it's been kind of slow journey and just a constant building

relationships to make my way in. And in a lot of years, I've been in just a few years, and so just still very humble about learning and meeting folks and really understanding what people are going through, so I can be of help.

### **Bruce Eckfeldt**

Yeah, I'm curious you mentioned this whole the accountant versus CFO. Give me a little more insight on kind of how those roles differ, and from a business point of view, I guess, how do they relate to the kind of management of a business? Sure,

### **Guillermo Rodriguez**

so many times a small business will hire an accountant to get to a point where a business owner doesn't have the time, but also needs the help, and that they don't know on the financial side, but many small businesses, they can't afford, nor need a full time. CFO right to help with strategizing, with looking at different scenarios on how you're going to grow the business, and then the million dollar question is also, how is this going to affect me from cash standpoint? What is my cash going to look like through the different cycles? And so that's what a virtual CFO really does, is helps the client understand where they're going, and helps them get to where, where they want to be financially, and it takes more than the traditional accountant relationship, because, you know, I really want to understand why you have these goals and what's important to you, because that's what's going to drive the accountability to the plan and to those goals, whereas a traditional accountant is more transactional. And it's not that we don't do those things.

We have all these services included in our menu. I guess you could say when we meet with potential client, you could choose accounting, tax and the advisory that includes all the forecasting, and each of those pieces has a different price, and so the historical stuff like tax and accounting, that's one piece, and some clients may choose not to use us for that, and that's what a traditional accountant would do. But what's different is like, just take a look at like, from a tax standpoint, is that we're meeting with the clients regularly, three to four times a month, sometimes even more, and so we really understand what's going on in the business, and we can do better planning, even for the tax side, not only the profitability side.

So that is the big difference about it is that, you know, the traditional accountant maybe is charging per hour or per project, whereas our model is, we're subscription based services, service and when, when we bring on a client, they pay a weekly fee, and they basically have access to a virtual CFO that's assigned to the account, as well as a senior accountant, a financial data analyst and a tax manager and sometimes a few other folks. So they're really paying for that access. Some clients use it more, some clients use it less, but it gives you that flexibility, where you're not really worried about hourly rates or anything like that. But it's also like, I'm sure you've talked to a lot of business owners, and their frustration with accountants sometimes is, it's not readily available, right? It's like, my accountant doesn't call me back or only speak to him or her during this time of year, yeah. And so that's the really big difference, is that it's more focused on strategy. Yeah,

### **Bruce Eckfeldt**

no, I get it. And I mean, talk to us about cannabis, and when you started to think about cannabis or getting involved in cannabis, what did you feel like you knew? What did you know you were gonna need to kind of figure out? And what surprised you as you got into that space, what?

## **Guillermo Rodriguez**

I didn't know anything, actually, but then I got into just really learning the accounting. And the big thing everybody mentions as you're getting into working with cannabis clients, is the accounting is different because of the non deductibility of expenses under 280 e so that was the first thing I learned. Is I had a background in construction, and so I really understood cost accounting and how cost moves through the balance sheet that and essentially to do tax accounting for cannabis companies is an understanding of how that cost moves from, you know, cultivation into processing, into ultimately retail, and how you would do the cost accounting. To move those costs around so that they're deductible at the right at the right time. What I really didn't understand at the time, and what surprised me, is how different each market was. And so as a forecaster, I'm trying to put together, what would it take for when we meet with the client?

What would it make take for you to be profitable? And we break it down to metrics, and we call non financial drivers. And one of these, for example, is on the production side, right if you think of revenue for, let's say, a retailer, you're looking at the size of each transaction, basket size and the number of transactions to come up with revenue, and then you have the cost of the product right to get to gross margin. Then you have your overhead, then net income, then your taxes. But the size of transactions, the number of transactions, it varies so widely from a Michigan, more established market, to a Missouri, Maryland, a more emerging market, and so some of those markets are healthier, and so that's really what I learned.

And then as well, is down to the regional level as well, is that what it takes for one cannabis company be successful over here in Missouri is so different from what a California company would be dealing with and such and the heavy competition they have going on over there. And so I think that's what really surprised me, is that how we really have to break things down to a regional level, to a state level, and understanding data to be able to forecast accurately. And I thought we could benchmark, and we do, to some degree, on the financial statements, yeah, but it's not nationwide, right?

You know, we want to get our clients Regardless of industry, you know, like, let's just pick 15 to 20% profit before tax. You know what was different in cannabis? Then, if you look at the after tax margin, is that 280 e really takes a chunk of even makes it hard to build cash flow after tax, even for a really outstanding, profitable cannabis company. So that's really the challenge. Yeah,

## **Bruce Eckfeldt**

you mentioned this kind of market by market. I'm curious, from sort of an accounting, finance point of view, you know, obviously, federally, we're cannabis is still illegal, which creates the 280 e issue. How are there other state level kind of regulatory, you know, market or regulatory setups that create kind of financial complexities, or, I guess, how much of this is mostly federal related complexities for these businesses versus, you know, state level kind of complexities, yeah,

## **Guillermo Rodriguez**

and that's a good example. I'm always thinking about the financial side and the tax side. But among the different states, you have the local jurisdictions that are taxing as well, like the cities, the sales tax and the excise tax. That's not a tax on the actual company itself, but they're taxes that are just like when you go buy something at the store, right? Yeah, there's an extra tax that you as the consumer pay. And so you have a lot of cases where multiple there's a good example in Missouri, you had multiple jurisdictions that were stacking

taxes on top of these transactions and making the product very much more expensive to the consumer, right? And so that's the issue with the illicit market, and the legal market is the price of the consumer. And so that's the case where Missouri was successful, at least the trade group in that state on resolving this issue and lowering the tax, or at least not stacking it. So you come across all kinds of things like this, where at the local levels, you have these taxing jurisdictions that aren't really talking to each other. They don't care. They see the tax revenue, but they don't understand the long term effect to these businesses and so and ultimately themselves, right?

Because we want healthy businesses that can generate revenue and tax revenue for many more years to come. And so I think that's another challenge, is just how short term the thinking is from a lot of these local governments and programs and not really helping these businesses long term. The same thing with the operators themselves. Right now. You see a lot of lowering of Dutch you just put I always mention this report, but how revenue was flat last year, just nationwide.

This is really large kind of statistic, but it's simply from more items being sold at lower prices, and that is driven by the operators themselves, the businesses themselves that are heavily discounting, competing maintaining market share, but it is hurting business. You know, it's kind of like oil companies who, you know, lower their prices to hurt each other, but there's no OPEC in cannabis, so, I mean, they're hurting each other and and it's hurting profitability for the industry overall.

#### **Bruce Eckfeldt**

Yeah, I'm curious, as you've kind of worked in this cannabis market. Are the different kind of types of cannabis companies, or where you are in the kind of the supply chain here, whether you're cultivator, processor, distributor, you know, retailer, how does that change? Or how do the kind of complexities change for these different types of businesses? Well,

#### **Guillermo Rodriguez**

for one, they're all different businesses. So from a management standpoint, it requires completely different skill set from being being experienced in CPG and retail versus working in manufacturing and tracking cost and profitability at that level. And we know cultivation is just such a generational skill to be a good cultivator, and that's why, like the hemp industry, has had such a tough time here in Texas because we didn't farm hemp for so many years, and it takes generations and generations of knowledge and passing down a knowledge to be good at that craft.

And so it varies tremendously among the three, like at the retail level, for example, the complexity is around pricing and understanding the ultimate consumer preference and behavior and where you need to discount and price products to make sure they're keeping moving forward, but not too much to where you're losing margin. And so a good understanding of pricing, knowing consumers, maybe someone in a like a management team that has the experience in retail or some form of CPG would do really well with that, and that's obviously like what you see a lot of and with the big MSOs, whereas in the margins are a little bit thinner on the retail side as well as the deductibility is less, You know, talking about taxes on the manufacturing side or the processing side. It's meant more to meet demand. And so the demand of the customer on the processing side is the retail. And so that demand is there, especially for a processor. And so the margins are it's much more capital intensive, but the margins are much better on the processing side of the business, and then on the wholesale

you've seen much better margins in wholesale. But then again, wholesale is subject to the wholesale prices that have just cratered in a lot of these different states, just because the markets have just matured, because I used to work my very first job out of college was I work with a Department of Agriculture, Agricultural Marketing Services.

And these are programs that are meant to stabilize market prices of commodities. And so, like very early on in my career, I knew that, you know, market prices for highly perishable products, which flour is, is really important, and it leads to a lot of waste and or in this case, just price reduction. So I worked in this dairy division where the government actually sets the price for perishable commodities to stabilize these markets, because otherwise you have a lot of issues, like what you see in cannabis. Now, I don't think we'll ever see one of these programs for cannabis, but it's just like in some cases, this government regulation is very helpful to stabilize market pricing and what you've seen in dairy avocado, a lot of other industries where the product is perishable and subject to a lot of price difference fluctuations between the producer and the ultimate retailer that gets that product.

So, yeah, and they're just getting a company up, and it's all about scale. You know, I put together a webinar where, you know, we do this for our clients, but I try to just share this just more publicly on what your financials should look like. And back to my earlier comment that even for very profitable cannabis company, it's difficult to generate cash after taxes, and so scaling is very important. So back to your question of, you know, these different businesses is the more pieces you can add and scale and grow, you know, the more profitable. But of course, that is fraught with issues, with trying to raise the cash and the capital of, you know, trying to get that business up and running. So a lot of our clients and a lot of the public companies that you see out there, they do have to sustain losses for several years before they get up and running. Yeah,

### **Bruce Eckfeldt**

what are their sort of common mistakes or things that you find when you come into these companies about how they either have set up their books or their processes, or how they've kind of approached finances that you spend a lot of time kind of undoing, and if they just knew earlier and then just set it up differently or or didn't do it, would make your job easier, or provide for them sort of better tools to be able to manage the business.

### **Guillermo Rodriguez**

Yeah. I mean, I think that's the number one thing you. Mentioned, there is not maybe they bring in a client. I'm working with one client now we bring in, we onboarding the client. And, you know, it's taking some time to get to where we were going to review financials. Of course, immediately, based on data, you know, we start meeting, but actually getting the books closed and looking at historicals to say everything's done takes some time, and that's been the number one thing is that a lot of clients come on and they have not recorded transactions correctly, or whether it was their prior accountant or someone that they were working with. And it really just maybe, as an accountant, you know, it's some of this is common sense, but is just kind of reviewing and asking questions, whether you're working with an accountant or someone in house.

Is ask those questions that this doesn't make sense. You know, if your inventory number looks a lot higher than what you thought it was, ask the questions, because those are the kind of things that will start to dig out where the errors are, and you can get those books corrected before you start working with an advisor. Because when

you're ready to work with the virtual CFO, you can get up and running much faster if your data and your books are ready to go and you know, you can start providing that analysis, that insight, to help you get to profitability, or help improve your profitability and your cash flow much more quickly.

### **Bruce Eckfeldt**

Yeah, and where do you see this market going? I mean, are there kind of potential changes? I mean, we were looking at potential federal legalization, maybe someday, you know, changes in state level regulation, stuff, I guess, how much are you kind of looking at how this market might shift and change, and then helping companies kind of prepare for some of these things, or, you know, be ready for some of these changes to happen. And how much of this is just, we really don't know. It will we just do the best we can with the current sort of situation, and when things change, we'll figure it out as you know, those changes get implemented. I mean, I'm curious how much sort of strategic forecasting you do on changes of markets,

### **Guillermo Rodriguez**

yeah, from a market standpoint, you know, you think of any industry, and I mean, you would think, Wow. I mean, cannabis is so profitable we know that it's not. And the majority of companies are not at profitability or generating cash from operations yet. And you look at bdsa Does different statistics on, you know, the acceptors, the number of people that are essentially coming on to learning about cannabis, are open to it or trying it, and that number is just increasing, and it's not going to go down anytime soon. As well, as, you know, more state programs being legalized.

But just from the consumer standpoint, the demand is just going to continue to grow as more people become educated, as the stigma goes away over time, you know, as generations age, and so the overall demand for the product is there if we could just run companies efficiently to be able to generate income. So that's one thing, right? So the other piece is really getting federal reform around the tax situation, because this can't work long term. And I don't think anybody ever intended to be in a situation where 280 e would apply for a business for, you know, 10 years, say, Colorado. I think it's in their 10th year. I don't think anyone said, Okay, well, we're going to start these businesses and we're going to be paying 280 taxes for the next 10 years, right? And so and so this is the year where there's the most promise of that changing, whether it goes away in the current year and you have your first year of not filing 280 taxes.

Or, I'm sure you've seen the case where the control Substances Act is being challenged when their state legal programs, and if that's a lot of companies are using that to file amended returns. If that's successful, it's still not a done deal. So there's not only the potential to bring in a ton of cash flow into all these companies in the current year. But also, if a lot of this is successful, we'll see how things play out. More companies will start to file amended returns and see additional cash flow, not just from the current year, but for three more years. And so the estimate on the current year.

Don't ask me how this math works, because I just referenced something. I need to look at it myself. But it's about a billion dollars in extra cash in the industry from 280 going away this year, if the Reschedule happens, and I've heard a number of eight to 9 billion cash into the industry from amended returns. Now that's if everybody did it, and everybody had could afford a lawyer and do all the things they need to do, and every you know. So it's a tremendous, tremendous opportunity for companies who are doing things right, pricing their product, have a good market position, managing overhead, and they can finally start to change. Rate 15 to

20% net income and pay a normal tax rate and maybe achieve five 10% income after tax. Yeah, that would be nice.

### **Bruce Eckfeldt**

Actually. Yeah, exactly. And how do you get started? I give someone listening to this program involved in leadership in a cannabis company, and they're struggling with some of these things, and they realize they really need to kind of get a handle on this and figure out a better strategy. What's

### **Guillermo Rodriguez**

the way to get started with the virtual CFO Bruce, or with tax? Well, I

### **Bruce Eckfeldt**

think it just in general, like, if you're looking if you're a business owner, a leader inside this cannabis company, what are the things I need to start looking at in terms of my financials? How are things set up operationally, like, what do I need to start learning, or what's my first step in improving how finances are set up in the business? Sure,

### **Guillermo Rodriguez**

I think one big area it's a little bit different in cannabis, would be to start to manage cash effectively, to think about a methodology for managing your cash and some goals to get there. First, it starts with production. You know the things that we're talking about in retail sales equals cash. So it's pretty simple. And so increasing transactions and basket size and profitability. So there's a whole set of things to talk about, their customer retention, to improve the profitability of the business. And then I get this question all the time is, how much cash Should I keep on hands?

Especially if you have a company where you have multiple entities, you asked about the different pieces. You know, some businesses may have multiple entities and different operations as well, with cultivation and retail in the manufacturing, is to be really understand how much cash your business needs to have to be able to run operations for a certain period of time, and the number that we use to not have to work through the whole calculation is 10 to 30% of your revenue is what you should keep in cash. Now that could be a little bit aspirational in cannabis, if you're running pretty thin, but at least you start to think about 10 to 30% cash means two or four payroll cycles.

And you could calculate that by looking at how long does it take for you to pay bills, and how long does it take for you to collect money in retail, it's the same day. And that way, you start to form a way of thinking about how much operational cash you need in your business to before you need some additional funding, or you can plan around that or defer expenditures. As well as the big topic right now, how are you're going to save and be able to pay for taxes? And so we're a little bit more, not a little bit we're a lot more proactive, in that sense, where we set up a different bank account for our clients to save taxes and make their estimated tax payments out of there. Now, a lot of companies right now are choosing not to make their tax payments, or assuming 280 is going to go away this year. So that's a little bit different. But that is, I think the foundation to start to think about financing is how much cash do I need by looking at your cash flow cycle, or you can shortcut that and say, I'm going to set a goal of 10 to 30% of revenue, and then start to segregate your accounts and put your tax liability



in a separate account. And so the doing, the having the discipline around that, to be able to start to build cash is, I think, really helpful. Yeah,

**Bruce Eckfeldt**

this has been great. Guillermo, if people want to find out more about you, more about the work that you do, what's the best way to get that information?

**Guillermo Rodriguez**

Best way is to find me on LinkedIn. Guillermo Rodriguez, it'll it should just come up there and find me on LinkedIn and we can connect. There's also a link there for my calendar page, and I'm also we just launched our podcast, which I'm hosting. It's called the cannabis Success Show. We're trying to focus on or bring in people that you know companies and share success stories.

So we talked a lot about today challenges and things, but we really want to share what has been successful and what's working, because we need to work together, right? And this is the tax situation right now is a big example. You have a lot of companies saying being secretive about these things, but the more we can share and how to move forward and to understand what are the risks out there? I think the better off we could be, I think we just the more we can help each other, the more successful we're all going to be. And so that's what we're trying to do with the cannabis success show. So just wanted to shamelessly plug that in there. Of course,

**Bruce Eckfeldt**

of course. I'll put the links in the show notes so people can get that and check out you and check out the programs. This has been absolute pleasure. Thank you so much for taking the time today. Thanks,

**Guillermo Rodriguez**

Bruce. Enjoyed being on here. You.

**About Eckfeldt & Associates**

Eckfeldt & Associates is a strategic coaching and advisory firm based in New York City and servicing growth companies around the world. Founded and led by Inc. 500 CEO Bruce Eckfeldt, E&A helps founders, CEOs, and leadership teams develop highly differentiated business strategies and create high-performance leadership teams who can execute with focus and rigor. Leveraging the Scaling Up, 3HAG, and Predictive Index toolsets, the firm has worked with a wide range of dynamic industries including technology, professional services, real estate, healthcare, pharmaceutical, and cannabis/hemp.

For more information, please visit <http://www.eckfeldt.com/> or email us at [info@eckfeldt.com](mailto:info@eckfeldt.com).

*Copyright © 2020 Eckfeldt & Associates*

Individual Use: A limited amount of content may be printed for your own personal, non-commercial use. In the event of such use, all copyright and other notices and clear attribution to *Thinking Outside The Bud* and

*Eckfeldt & Associates* must be maintained. The content may not be modified, distributed, retransmitted, or used, in whole or in part, in derivative works. All other uses, including reprinting, republishing, broadcast and any further distribution, require written permission from *Eckfeldt & Associates*. For any questions or to request permission, please contact [podcast@eckfeldt.com](mailto:podcast@eckfeldt.com).