

Ep 6: 3 Things Every Entrepreneur Needs to Understand about Money

Hello, Nikki Purvy here, your host of the Better Than Success podcast and this is episode 6. In this episode we are going to talk about three things that every entrepreneur needs to understand about money. I am really excited to bring this episode to you because I know that a lot of start up businesses or start up hopefuls or even businesses that have been around for a year or two or even some of you people who really great amazing jobs up there and are trying to climb corporate ladder. There are things you know you need to get better at when it pertains to money and I am no financial expert but I will tell you the same thing I tell you every singly solitary week, this podcast is really based in our experience with working with a lot of start up businesses and start up business hopefuls, as well as our experience from literally quadrupling our business in a year. We increased our business drastically from two years ago to a year ago to even now. So we have learned a lot and have a lot to offer. We have observed a lot from our clients and we want to pass that knowledge onto you. I know this information is going to really enrich your life and help improve your business or your idea or improve your life in the workplace.

So the first thing every entrepreneur needs to understand about money is that money is a tool, nothing more, nothing less. It is not even really real. I know you in your car driving, listening to this podcast, or you're on the treadmill or on the elliptical or your cleaning up, and you stop dead in your tracks and you're like, "What is she talking about, money is not real? Money is all too real because if I had more of it I would be in a better place." But I want you to know that it is an illusion, it has no real value, it is just a tool. It is not a thing to love because it is not lovable because it is just a thing. It is not a thing to praise, and guess what; it is not a thing to rap about in songs. It is not that important to rap about it in songs. Once you understand that it is a just a tool and that's it, just like a wrench or a hammer, then you will make better money decisions for your businesses. And because it's a tool just like a hammer, a hammer is used to hammer down nails, a wrench is used to wrench things, I don't know, twist things or whatever; money is used to do a couple of things as well. So we are going to talk about some of those things money is used for.

The first thing money is used for; it is used to make time and freedom, for you, your employees, your clients, for whomever. It is used to make time and freedom that is the substance of life; time and freedom. Your life is made up of time, and the quality of that time spent is based on the ability of you to have the freedom to be able to do what you want or what you need to do.

And I will give you an example; we were just talking in the office about in the early days when it was just two of us just grinding out, working so, so, so, so, hard. And I have tons of funny stories about that but for the sake of time I won't tell any of them. But even prior to it just being the two of us, it was just me, I was like crazy, insane, worker-bee and now we have six people on the team and I was, for the very first time, able to take back-to-back two business trips and a vacation without having too much stress because we invested the money in our team and it allowed us to have the freedom for me to be able to cater to our clients and then also take a much needed vacation that I haven't been able to take in six years. I have taken little trips here and there but I never really quite took a vacation because I always worked. I went on this crazy trip last year to Japan and Qatar, and I worked and I was stressed, everything just happened. And then this year I went to the Bahamas, I went to LA for the first part of the trip, and then I went to Vegas and then I went to the Bahamas. And I checked in once a day, if that, a couple days went by where I didn't check in but the team they really held in down and that is because we invested the money to buy the time and the freedom. And let's go over to another example of a way money, the tool, is being used and how it is being utilized; you can use it to buy cash flows and wealth, use it to buy cash flows and wealth. Invest the money in the business to get the cash flows. This is probably; I was going to say more important than the first utilization of money which is time and freedom, but no, it is equally as important. These two are very, very, very, very, very important things, on a scale of, if I had to break it up, between, in percentages, I would say the first one is 100% and the other one is another 100%, so it's somehow 200% as important because that is how important this principal of money being a tool is.

So let's talk about using money to buy cash flows. I will use the same example of our team. We invested in our team and it means that we can take on more work, so we have more cash flows, we can take on more retainer clients, so we have more cash flows. I am going to give you a little test; if your business is down to its last \$1,000, but your personal car note is due and you haven't paid yourself yet, but your business's inventory is low, where should that money go? Now, I am definitely of the school that maintaining a personal credit is paramount, I am definitely for that. But where should that money go? If you know that money is a tool to buy cash flows, which is really, really important, where should that money go? You are correct, that money should go to your inventory. That money should go to your inventory because it maintains the health of your business and it can insure that you have more cash flows to pay future car notes. So let's not sacrifice a better tomorrow to make sure that we alleviate some pain from today. So always remember that. Use money to buy time and freedom and use it to buy cash flows. Once you understand these two concepts, or once you understand these two utilizations of money, you will make better money decisions about your business.

The second thing that every entrepreneur should know is the difference between speculating and investing. Now, I am going to give you a little bit of ground work, and if you stick with me I

will make everything come full circle. So let's talk about speculating and investing. Currently, I am listening to the audio book, "The Intelligent Investor," by Benjamin Graham. If you guys know this book, that's great because it is a classic. If you don't, then I will tell you it is kind of like the Bible for investing in terms of securities, stocks, and bonds, and Warren Buffet calls this the greatest book of all time. He talks about it in his letter to his shareholders. I have watched a couple of lectures that he spoken at, and he has talked about this book. And I do believe he studied under the tutelage of Benjamin Graham, the author of the book. And so currently I am reading this book, I probably should have read it a long time ago when I was actually working in finance, but I am reading it now, and one of the first things that they talk about in the book is the difference between speculating and investing. And in the book the definition is, an investment operation is one which upon thorough analysis promises safety of principal and a satisfactory return, operations not meeting these requirements are speculative. So I am going to go a little bit deeper and give you the definition according to Investopedia, Investopedia is kind of like Wikipedia for finance, when I worked in finance I lived on Investopedia. But their differentiation between speculation and investing is this; typically hydrous traits that are almost akin to gambling fall under the umbrella of speculation, where as lower risk investments based on fundamentals and analysis fall into the category of investing. Investors seek to generate a satisfactory return of their capital by taking on an average or below amount of risk. On the other hand, speculators are seeking to make abnormally higher returns from their bets that can go one way or the other. It should be noted that speculation is not exactly like gambling because speculators do try to make an educated decision on the direction of the trade, but the risk inherit in the trade tends to be significantly above average. So I am going to give you the Layman's Terms of that. Basically, investing is when you do analysis and you do research before you put your money where your mouth is. Speculating is when you make an educated guess without doing analysis and research. Investing requires a lower return because there is a lower risk where speculation requires a higher return. What I want you to gather from that is that unless you have done research and analysis about your business and industry then you are speculating. I am very much so not in the business of speculating when it comes to my livelihood or my business and I don't suggest that you do that either. I want to point out that in The Intelligent Investor, the author points out that anyone has the right to speculate. He says if you feel like you must speculate, then great, but never comingle you speculation operation with your investment operations, and never rely on your speculation money. The bigger problem here is that a lot of times small businesses, or new entrepreneurs or entrepreneur hopefuls, they decide that they want to start a business and they speculate, and they don't know they are speculating. They haven't done proper research, they haven't done proper analysis, and therefore they are speculating. What makes that even more worse, is that because they don't know they are speculating and they think they are investing, they only require the same amount of returns as investing, which is lower returns. So you are taking on this high risk trade,

which is investing in this business, because you haven't done the research, but is based on some form of educated guessing, but you are only requiring a low amount of return because you think you are investing. But you are not. You don't even know because you don't know the difference between the two. And that is okay; I am here to help you. Now that you know the difference between the two, and you know that you have this business that you want to start, do your research, do your analysis. Do as much research as you can, go and find someone who is already in the business. We live in the age of information. If you are creating a brand new business in a brand new space, do as much research as you possibly can before you do so, otherwise you are speculating, and if you are speculating that is fine, do it as a past time, don't quit your main job. That's fine, I don't have a problem with that, do it as past time, don't quit your main job. 1. Don't rely on that money and 2. Don't comingle the speculation operations with your investment operations, which at this point is your regular job. Don't comingle the operations, don't comingle the money, So, I really want you to understand that definition. I am going to go a little bit more because I am going to be super, super preachy because that is just the mode that I am in about this, but someone said to me the other day that they were listening to the podcast, and one of their takeaways was that I came off well-read. I don't know with how much I agree or disagree with that because it's all relative. What you may consider well read, another person may think of as an idiot, and vice versa, I don't know. But I have read quite a few books by top business leaders and an underlying theme is that they don't gamble. I have even given up the art of gambling. I used to play Craps and Black Jack when I went to casinos, just for fun, I never comingled my money, but once I had read what I am about to tell you that I read, it was like, okay I am not doing it anymore. Andrew Carnegie, if you guys aren't familiar with him, he is literally one of the richest men of all time, there has been reports where they will try and adjust for inflation to try and rate the richest people of all time, and Andrew Carnegie is always high up there, top ten or top twenty or something like that. But he came around in the turn of the 20th century and pretty much spearheaded the steel industry. And he was a very wealthy dude. I listened to his auto biography on audio and he said something in his autobiography that changed my mind about gambling, but when I went to go and get the exact quote, I found that he even wrote an article titled, "The Sinfulness of Stock Gambling" in the Pittsburgh Press, December 15, 1903. So this guy was totally against stock gambling, but from his book, he writes this, and it is a long quote but I want you to hear everything he says in it. "I have never bought or sold a share of stock speculatively in my life, except one small lot of Pennsylvania Railroad shares that I bought early in life for investment, and for which I did not pay at the time because banker offered to carry it for me at a low rate. Such a course should commend itself to every man in the manufacturing business and to all professional men. For the manufacturing man especially, the rule would even seem all important. His mind must be kept calm and free if he is to decide wisely the problems which are continually coming before him. What is not he sees and what he sees is not, he cannot judge the relative values or get the

true perspective of things. The mole hill seems to him a mountain and a mountain a mole hill and he jumps to conclusions which he should arrive at by reason. His mind is upon the stock quotations and upon the points that require calm thought. Speculation is a parasite, feeding upon values, creating none." See what the richest man of all time has to say about speculation? I am going to listen to him, I don't know about you, but I am going to listen to him as it pertains to speculation. Furthermore, I warn you about speculation when you are starting a new business. You can get distracted by upswings and downswings. You never judge the relative values or get the true perspective things according to Andrew Carnegie. So, if you jumped in a business head first, based on speculation, you are going to get so caught up in emotions of ups and downs, even though you are still going to get caught up in the ups and downs of the business even when you do a real investment based on analysis and research when you start your business, trust me, you are still going to be so emotional. But at the same time, if you speculate, it's going to be even worse, you can't keep a clean head and I've warned you against that. So this goes with any sub investments you make while running your business. Should you buy that new piece of equipment? Should you spend money on a billboard? Should you invest in that new software promising to make your business run more efficiently? Should you hire that new employee? None of this should be speculated on. You should make sure you can do all the research you can and run all of the analysis's that you can before making the decision.

The third thing every entrepreneur needs to understand about money is that you need to make giving back a monthly expense. There is something about giving back and helping another human being that improves our own quality of life. It is magical; I tell you it is magical. I could cite dozens of Bible scriptures that would help my argument here, but I won't because I am going to reserve the Christian based entrepreneur redirect to our VP of business development at Lidy, Kiarra Solomon, who also runs her own project called, "Fix Your Crown," that is shameless plug, it is for Christian women entrepreneurs, but I am going to keep the faith based arguments out of this podcast. But almost every successful person I know gives back on a major scale. Let's pick three of the most successful people of all time so there is no debate here of whether they are successful or whether or not they give back. So let's pick three of them. Oprah. Oprah is a major philanthropist, she donates to three major organizations; the Angel Network, the Oprah Winfrey Foundation, and the Oprah Winfrey Operating Foundation and she also donates to the Mississippi Animal Rescue League, Project Cuddle, and Free the Children. I don't have time to run down this woman's philanthropic efforts, but you already know how much Oprah gives back. She has a school in South Africa; she is the give-back queen. So I am going to move onto my next person, Warren Buffet. In 2006 he made American history by making the largest ever charitable donation by an individual, \$37 billion to the Bill and Melinda Gates Foundation. Bill Gates is successful, he is one of the richest people in the world, there is no doubt about that, and guess what, he made the largest ever charitable donation. Let's move onto the next example, Bill Gates. In 2006, Microsoft founder announced that in 2008 he would

dramatically reduce his involvement in the running of the company in order to concentrate his efforts more fully on the Bill and Melinda Gates Foundation. The foundation focuses on four aspects; they have a global development division, a global health division, United States division, and a global policy and advocacy division. This is a very, very, very large charitable organization founded by Bill and Melinda Gates, Bill Gates and his wife. Now, some may argue that the reason these people give so much is because they have so much, but these people have so much because they give so much, it is the exact opposite, they have so much because they give so much. If there is one thing that you take away from this episode or all the episodes ever, or all the episodes of the podcast ever produced, it would be this one principle, I guarantee you that if you give back to the world your business will be blessed. There is no such thing as waving a magical wand to get riches, but this principle right here is darn close. Now, you have to have an ethical business, where you actually give people some sort of value, and you are a good business person, you have to practice some of these other things, but I promise you, if you want to seal the deal, you are going to want to give back. But this principle says to give back as if it is a monthly expense and I think adding that monthly expense in there helps to make you put in habit, helps you to understand this in an obligation, not an option. An obligation to your business, an obligation to your team, or your future team, and it's an obligation to those around you. You have to give back, make it a bill. Now I will give you an example of what we do that helped us drastically, we saw complete change in our business and our cash flows once we did this and it was very much indirectly related as a response of us kind of figuring out that we needed to give back as a monthly expense. Now, before I even go into this, this is not to brag, this is not to put a spotlight on us at all, but I am just giving this to you as an example, it may be something about this that you want to mimic, it's a great system and I hope that this example that I am going to give you helps you to figure out how you are going to have a philanthropic arm of your business or your enterprise. So, the foundation for our philanthropic efforts came from an experience that we had in the office. Kiarra Solomon that I talked about, she is our VP of business development, she has a son who I adore, he is like definitely my nephew, I love this little kid he is like the best kid ever and he goes to a Philadelphia public school. Pretty much everyone was brought up in the Philadelphia school system in the office, and I got a really good education but if you guys are not aware, Philadelphia public school system is pretty much failing, They are getting all sorts of funds pulled from them; the teachers, programs, they have no after school programs anymore, the teachers literally do not have enough supplies. So George's teacher, her son, George's teacher asked her, did she have any scrap paper at the beginning of the school year because she did not have any paper, can you believe the teacher did not have any paper? So Kiarra is telling me this story, like oh, you know, just in past-time, because we pretty much tell each other everything, and she said, yeah of course, you have my kid in your class, I will buy you paper, so she went and bought her paper. I am like what? They don't have any paper, this is crazy. I am going to

give her a \$100 gift card so she can go to Staples and get all the supplies that she needs. So we did that, I mean literally it was just to help George out because he such a great kid and I want him to have school supplies, but I thought about and said, if this teacher is having this problem, probably a lot of teachers are having this problem. And so we decided to give teachers, kind of like Robin Hood, without stealing from the rich, just give teachers \$100 gift certificates because I know these teachers are struggling to make ends meet in their classroom and they are spending a lot of their personal money. I believe in the Philadelphia public school system because I was educated and I think I turned out okay. I was educated in the Philadelphia public school system, but right now they are going through a lot of changes, I don't know what is going on, I can go into my whole thing about politics in Philadelphia but it really doesn't matter, at the end of the day these teachers really don't have money to get supplies in the classrooms and our kids are suffering. So, what we do is we give gift certificates to teachers, we mail them, we get teachers' names, and it was a blessing how we even ended up getting teachers' names because the Philadelphia Federation of Teachers, which is the teachers' union, there was an election going on, and at the time, the current president, his seat was being contested and so they had to break off and form another entity because they couldn't really comingle their operations because they were running a campaign, and they formed this entity called Collective Bargaining Team. So this was the current president and his cabinet and so they hired us to run the digital portion of their campaign and it was great, they ended up winning by a landslide; shameless plug for our digital marketing skills. They ended up winning by a landslide but in the process, we requested, hey, just give us a couple of teachers' names so we can send out some gift certificates and they gave us dozens of teachers' names, hopefully we will be able to get around to all of them. Every month we just send out a couple. So, that is our responsibility at the first of the month, that money comes off the top, and we give and it comes right back to us and I am very thankful for that, and I really want you to understand that principle, that you really need to give in order to ensure that your business is successful. You have to do other things, like be sure that you are a great business person, and be sure that you know your industry and be sure that you understand that money is a tool, and be sure that you know the difference between speculation and investing but you have to seal the deal by giving back. You have to do it. You have to, have to, have to, have to, have to, have to, have to do it. So, those are my top three things that every entrepreneur needs to understand about money and if you are listening on our website we are now on Stitcher, so hooray, you can listen on your Android, if you have a friend who says, hey, I can't listen to this because I don't have an iPhone, tell them now you can listen on an Android. So be sure that you subscribe, rate, and review and until next time, happy entrepreneuring.