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Expert Summit

MASTERCLASS TRANSCRIPT



Understanding Cash Flow

Hey, it's Nev. And thanks for coming to my cash flow talk. I don't know what you're doing today that got you so bored that you want to come listen to a guy droning on for a half hour about money. But I promise you this, I won't put you to sleep. I can't promise you Tiger King-like drama and excitement. But I can promise you that you'll walk away here with a system for understanding your cash flow. And I'm also going to share with you the number one problem that I see agencies and freelancers making, and it's a five second fix. So once you know that you could save yourself from like a world of pain in the future. But before I get started, though, I want to tell you this story.

In a previous life before I became an agency owner, I had a job as the Portfolio Analysis, Marketing Director for an investment advisory, accountant, estate planning law firm. Now I would do most of the writing, the research, and the portfolio analysis. We would be at client events and the clients would come up to me and say I want to ask Jim a question and Jim would be my boss. So I'd go over and get Jim and Jim would come back and he'd answer their question. It would be the wrong answer anyways because he never even read what I wrote. I would just sit back and and chuckle and everything like that. Because the deal was that I didn't have enough gray hair for them to take me seriously when I would talk to him about money. Anyways, that's what it is absolutely love about you guys. Because y'all spend your time coming into watch somebody that looks 12 tell you about money.

Alright, that aside, let's get started. Understanding cash flow to make better decisions. Let's meet our cast of characters. First we have Jenny. Jenny's a rockstar developer. She's having a great month. She's excited. She has several new projects she got in and she can't wait to dig in. It's the fifth of the month. She's getting ready to go to bed and then it hits her boom fifth of the month. She has bills for her contractors due on the 10th of the month and then she has a gravity form subscription due and then she has a couple little bills after that. Is she going to have the cash in? She's having a great month, But will she have the cash to be able to make those bills? She doesn't know and it's stressing her out. She can't get to sleep, and it's going to affect her productivity the next day. So have you ever been in this situation? I know a lot of people have.

So then we have Jimmy. And now Jimmy is at his favorite coffee shop, doing his design thing and he's just loving it and he's tapping away on his MacBook and all of a sudden, you know, he sees he feels these stares. And then he's like, why is everybody staring at me? And then he hears this noise. And he's like, what the hell is that noise and he looks and it's laptop. It's making so much noise. And he's like, ah, I need to get me a new laptop. But I want that new MacBook Pro 16 inch that came out last year in, and I want a discreet graphics card and I want the upgraded RAM, but that's gonna cost \$600 for \$50 a ram because Apple. So he just doesn't know if he should spend the money right now. Or if he won't regret it if he buys it now. So he doesn't know what to do. He doesn't know whether he should buy it. All right.

Now let's meet our narrator. That's me. And this is where I tell you all sorts of great stuff about how wonderful I am. And you're so bored, you start scrolling through Instagram. Because this is what you really care about: who the hell am I and why the hell should I listen to you? Well, the answer to that is simple. Because my name was on this talk, and I had the clicker dammit. Next slide.

No kidding. Kidding, kidding, kidding, why you should listen to me? Because, like you. I'm an agency owner. But I got involved in this and maybe a slightly different path. You know, I wasn't a designer or anything like that. I came from a finance and marketing background. And what I saw was a lot of my friends and colleagues struggling with this kind of stuff. So I would help them out with their money and understanding it. So I know the stuff that you're going through, and I know how to help you with it. So that's what we're going to do in this talk. We're going to give you this system. All right.

So let's get into it. All right. Our business expense tracker. Sounds scary, but we're going to break it down in a simple way. So what we have here is three columns. In one, we list our bills, our monthly bills and everything like that. And then we list our monthly subscriptions. And then we list like miscellaneous stuff. All right, and as you can see, we put the amount on when it's due. You're going to get all this stuff. I'm going to give you a code at the end of this, to get this whole course that we teach on cash flow for free, and you'll get all these templates and you will be able to do this immediately. So in this part right here is just tells you how much money that you have to collect every month to meet your bills.

It's really neat to use to figure out pricing, but it's kind of out of the scope of this talk. Then what we do is we simplify the cash flow statement. If you ever looked at a cash flow statement, if there's anything ever that's made you want to drink it's the cash flow statement. If you've ever printed one from QuickBooks, that's the confusing as crap right there. So I simplify it. You know, what we're going to do is we have some columns here that we fill in. The first is date. Now, does anybody know what goes in that column? Anybody? Anybody? Yeah, you're right date, you guessed it. Then we have who and what? So, rent, we had rent, if we look rent 1200 dollars on the first, so we go first 1200 dollars, and that's going out. So it goes in the red column. Now people have told me that's pink. But as far as Microsoft Excel is concerned, that's in the red column. So now we have green, and we have red. And then green is coming in as money we have coming in and red is money we have going out and then the balance column is yellow, and we'll get to that in a minute. So okay. And this is what it looks like filled in. So with all this stuff from our expense trackers - see how this is building on each other. And so this is everything just filled in there, the coming in and the going out and you see how the balance column is green and yellow.

So what happens is it's green if it's above 1000, and it's yellow, if it's below 1000. Now 1000, that's just a number I picked. This seems to work for a lot of people. But you could set that in in the course we tell you how to set that as a threshold. And then if your average amount of bills that you have coming in, like your average bill is 5000 a month and you don't want to dip below 5000 if it's a 500, maybe you set it at 500. \$1,000 seems to work for most people in my experience.

So, alright, so this is the same slide we just looked at in smaller form. And here is another slide. The difference between these two slides is, you see, right there that and I'm using my laser pointer, like you could actually see what I'm pointing out on my screen. Oh, well, the fun of doing online talks. So as you could see in the sixth line down, it's \$630 that we pay our contractors in the one on the right, we moved that we put it out as another zero on it and makes it 6300. So when we came time to pay our contractors, we had 1700 in the bank account. So obviously, we don't have the 6300 so it goes red, because that means it's negative. And you say Nev, these are color coded. Yes, everything is color coded. Nev loves color codeness, and not because I'm a little kid, although I am kind of a 12 year old at heart, but just because I think colors make it simple, and I like simple, easy to understand at a glance kind of stuff.

Alright, so what colors are there now? Well, I'm glad you asked. There is red, yellow and green. Anybody care to guess where I got that from? Yes, a stoplight. Very good. Brilliant. Anyways, though, so if it's red, within zero to 30 days, we need to find money. We need to get money in, either make some sales, collect some money that clients owe you or maybe even chip it some money because that's going to be a problem here. Within zero to 30 days, you're going to go negative on your bank account.

So Nev, you promised me this would give me less stress and that's stressing me out. Right? Well, here's the thing. It's less stress because if all of a sudden it blindsides you with the fact that you're out of money. Now, if you find out about it early enough, you could do something about it. So I didn't say no stress, I said less stress because if problems are going to happen, we might as well want to know about it right? At least most of us would. So ignorance is not bliss.

So and then yellow is don't spend, like in Jimmy's case, maybe Jimmy didn't want to spend the money on that new laptop right now. Because that would have put him in the red. So he knew not to buy it this month. Then Green means great - it means you're doing great, everything's fantastic. So 31 to 60 days here, we have red and it's don't spend any money. If it's closer to 60 it's not that big of a deal. If it's closer to 31 you need to find some money when it's red. Yellow was just caution is like, look at the sales you have coming, look at the business you have coming in, maybe you want to spend, maybe you don't want to spend. But just use caution when you're spending because you know, it's getting tight. So I'm in green again, you're looking great, fantastic looking good. So 60 plus the 61 plus days, the 60-90. We do 90 out, because you're going to know your expenses a lot clearer then you're going to know your revenue or know your recurring revenue, but you don't know how many new sales you're going to be getting in and everything like that. You should have some idea. So if it gets 90 too many past 90 too many things get red and yellow. I mean, you're more than welcome to do it there just to see, but just know that you know, red is not something to be really upset about 61 plus days. It just is caution saying that something could happen.

But you should if it's like it's 75 days, that's two and a half months. You should have some new sales coming in by then. And cashflow isn't your biggest problem if you don't know if you're going to have sales coming in by then it's more of us selling system you know, marketing and everything like that

something that's going to be creating leads for you. And that's kind of out of the scope of this talk right here. So yellow, it's no worries, you know, expect things to be yellow 60 plus days because like I said, expenses are a lot better known than revenue coming in. And if it's green, you're killing it. Keep on going - so fantastic.

Alright, so now I'm going to show you the Nev Harris simplified cash flow statement. See, Nev likes two things. He likes simplicity. And he likes a buffer, okay having a buffer and things being simple and apparently he also likes talking himself in third person for some very strange reason. Anyways, yes.

So let's see here we like flexibility and buffer. And if you see what we did here, this is the exact same statement. But we've done a couple things. One, we've moved around some payment dates to get us something that works better for us. Okay. And then we've taken all our expenses, all those little expenses that were happening throughout the month, and we've put them on a credit card. Use a credit card. Aren't they evil? Yes, and no, but they can be - they can ruin your life if you don't use them responsibly, and we're going to have rules for using credit cards coming up here. So bear with me.

So what we do is we had recurring revenue, rent contractors and payroll coming all out in the first week and you can say hey Nev I have my recurring revenues enough to cover that. It's fine that it all comes out in the first. Well see if you feel me. We've all been there. You have people on a recurring monthly billing payments on credit cards and all of a sudden expiration date expires. And then, you know, you don't get that money and you have to look, why didn't I get that money. Its expiration date, they were late getting out the check. Something happened. So, you know, it was a holiday, the mail didn't get there in time, whatever.

So it's funny, funny story I will tell you. We're not too funny at the time for us, but funny now that I could look back on it. So we had a client that used to go to Vegas every like month or two. And then when he come back from Vegas, he canceled his credit card. So his credit card never almost went through, you know, and we'd always have to chase him down and get the credit card number and everything like that. It was such a pain. But we ended up getting rid of him as a client for other reasons that but he was going to go broke anyways, he was gambling that much. So what are we doing? Why do we do that? Why do we want to? Why do we want to have this out to the fifth -- so that we have time to fix those problems. So, you know, if you've been a tenant in your in your place for a long time, you know, you could go to your landlord and say, Look, I'm going to start paying on the fifth every month, he might not like it as much in the beginning, but you know, you have some power. See, he wants to keep you in that building. And in a lot of states that can't even charge you a late fee. So if you pay on the fifth every month, you know, and you've been paying your bill with him, he or she will deal with it. And then contractors and payroll, you know, Nev, people want paid on the first, you know, well, if they work for you, they get paid on the fifth. You know, in my company, we pay everybody on the 20th - one time a month, because that's just what works for our best for our cash flow. And you should set this up for what works best for your cash flow. So you just tell people Hey, look, you're going to be paid on the fifth now and the 20th. You know, most people like to be paid twice. And that normally works for most people's cash flow. We're just different like that.

So we do that. And then so we also set up our credit card bill to be paid on the 22nd. Why do we do that? So we have recurring revenue on the 15th and payroll comes out on the 20th. And our credit card bill, we tell them before it was being paid on the 14th. Now we say we're going to pay at the end of our billing cycle is going to be on the 20th. And why do we do that? Because let's just say that client B doesn't pay us or some recurring revenue doesn't come in or something happens. And then we've had all this money, you know, from the credit card that we have on the credit card that's not through the 22nd. Now we have all that money coming out throughout the month, and then we get to make our payroll and all of a sudden, we can't pay it because we don't have the money because we've paid it nickel and dime coming out of our checking account all month long. So if we've all put it on the credit card, and then we get to the 22nd, we get to the 20th where we have to make our pay we can make our payroll and what you're thinking is great now, but now I'm late on my credit card payment. No, you're not because your billing cycle is the 23rd through the 23rd. Okay. And I'm going to get to in the next slide and that's important and what we could do to buy flexibility. So one more note about this credit card column right here we want to put our expenses. We want if we go out to dinner - when we use our credit card for anything, our lunch or we bought a gift, we write it in here. So every day that we come back, and we use our credit card, we write it in here.

Yes, it's more work. But here's the reason we're doing it. Because if we have a stack of cash, okay, and we spend through that cash, our pockets lighter, we feel the impact of spending that cash flow more. It I have a stack of cash and now, I don't. Maybe I need to cut back on my spending. But with a credit card, you're going around, swipe, swipe, swipe, swipe, swipe, swipe in here, and you're like, oh, what's another swipe, swipe, swipe, you know, and because you don't see that coming out, because it's one swipe feels the same as the second swipe. You know, it's not like feeling the cash. And that's one of the reasons credit card companies, you know, people take credit cards, because people will spend more on a credit card because they don't feel the pain of actually paying for it. Writing this down and seeing how much you're putting on that credit card a month will create that pain or will create that trigger in your mind. It's like your theory, your figurative stack of cash that's getting smaller when you see that number getting bigger. So that's why we do it. It's a mental thing. And it keeps us It keeps us honest and aware.

So and as you can see in the previous example, we had gone yellow in there. This time we're all green, because of the way we structured our cash flow - it's the same amount of money coming in. It's just structured differently. One, we were in the yellow at 700. Now we don't dip below 2000. And we actually make it up to 10,000. So this is better managing your cash flow.

So what about that credit card? Now? What are you talking about? I don't have to pay my credit card, it's not going to hurt my credit report in my credit rating, and it won't charge late fees or anything like that? No interest? Well, because we have this thing called the grace period. So our billing cycle is the 23rd to the 23rd. But our due date isn't to the 15th. And that's what's called the grace period. And what we want to do is pick the last day of the billing cycle as our payment date. So we don't have to wait for a statement come out because what we're doing, we were tracking as much money as we were spending on a card so we know, like back here, exactly how much money is on that credit card? So,

our billing cycle 23rd to 23rd, our grace period is to the 15th. So what does that mean? That means that when, when that happens when we didn't have enough money to pay it on the 22nd, or 23rd, you know, we could actually, but we know we're going to get our recurring revenue on the first or we know someone's going to pay us all on the first you know, we're going to get a big lump of money and we pay our bill then on the second or the third, okay? And it's not due to the 15th. So we've just bought ourselves like 10 days worth of time to wait, we have more money to pay it.

So in Jenny's situation, she's not she doesn't get stressed out about that because she understands her cash flow, how it's coming in and out, and she knows ways to create flexibility. So this is how you get peace of mind and less stress and don't end up you know, worrying yourself and not being able to fall asleep. We renegotiate to, for better terms for us, and we use the grace period. This is a trick that big companies use all the time to small businesses never use big companies have they had they have overnight lending, they have all these things, they have payment terms, they have all these things to, you know, structure their cash flow and get loans and stuff like this, this if you bought something on the 23rd, and you don't have to pay it to the 15th. You know, you've bought yourself over six weeks of having that money for with an interest free loan.

So the big question, and I get much more into this in the course is should I have my bookkeeper or VA do this? No, you should not. You're right. It's low value work. It's busy work. It's admin work. It's perfect work for a VA or bookkeeper. But remember, we want to be we want to learn we want to get to feel for the money coming in and out of our business coming into our business and going out of our business, okay? And we don't we want to know how much money we're putting on that credit card. So we it's like our figurative wad of cash going down. So that's why we don't want the VA to do this is a little bit more into this in the course too. I'm going to give you the quick version of this. So credit or debit? This is that five second fix that is a problem I see so many people making and it's could cause you a world of pain. One we've learned as if it's a debit card, it's coming out of your bank account every time you spend it. Okay? So that's going to nickel and dime you till you're in a situation where it could possibly be a problem.

The other thing is, say, this is what happens. You're here you're watching this course. You know, you're you're at home, and then all of a sudden you get your bill and your bank statement your it's your debit card, and somebody was in Ibiza and spent eight thousand dollars having the time of their life, you know, partying their butt off. And you know, you call up credit card companies say, hey, look there-I was at home work and I was not partying and Ibiza, you know, with Bella Hadid and all the rest of these people. And they're like, oh, no problem. If you weren't there, we'll get into it. And we'll give you your money back right now. And if it turns out that you weren't there you won't hear another thing about it. If it if you were there, and we could prove it. We'll put the money back on your card. And you're like, Cool, thanks. So I don't have to pay it. Nope. You don't have to pay that until we get done with our investigation. And depending on which way it turns out, and you're like, great, fantastic. Now, you don't have to pay that. So you call up your bank and you say, hey, same story. And your bank says, oh, man, I feel really bad for you. That sucks. You know, we're we'll investigated and everything like that. And you're like, Oh, thanks. Fantastic, and they're like, but before we let you go, your account is overdrawn

by \$6400. And you've bounced five checks, you know, and your, your employees didn't get paid this and the other and you're like, I know, it's terrible. You know, they're like, yeah, we feel bad for you, but give us our money. And you have \$500 in fees that you owe us now too. And you're like, what?

I don't have any more money left that took all my money out of my account. And they're like, I know we feel really bad for you, but pay us because that's what banks do. Banks earn money and then business to charge you fees for every little thing they could think of. And you know, they act like they feel bad for you, but they're like Yep, fee, fee, fee, fee, fee, fee. And, you know, you're out of luck because not only are they going to start charging you more fees every day. Your team is pissed because their payroll did go through so they're not pay so this could be a just a just like a death spiral. So credit card, it's absolutely not a problem. debit card, you could be in for a world of pain. So, but credit cards are evil, they're evil, everybody says so.

If you don't use them right they are. So and I get a little bit more into this in the course. So and actually how credit cards can make you money instead of costing you money, but for now, we just want to go over the rules. If you don't have money, don't buy it. A lot of credit cards are about financing interest rates, not having to pay your bill, you know, all this kind of stuff.

No, no, no, no, we do not do that. We do not finance anything. As far as we're concerned that money is due every month without fail. If you don't have it you don't buy it brings us to point two. We don't carry a balance. We pay that off every month. Point three. We always pay our balance in full so we never pay interest. Okay, point four be responsible.

Now, this means following the above rules. And also means knowing yourself. And if you're not responsible with money, if you know, you're just bad at spending money bad at managing money, not bad at understanding money because we can help you with that, but if you're just like, and we could actually help you with the other, but that's a harder so that's a much deeper subject. But be responsible because you don't want to ruin your life for the credit card. We all have limitations in life.

Me, I have ADD - clinically diagnosed, I can't go on Facebook, I go on Facebook for one little thing and like an hour later, I've done 50 other things, you know, types of messages into people that are really stupid on Facebook and then delete the message before I send it because I realize fighting with people on Facebook is just it's a losing battle. And so um, and then it's an hour later, I'm like, What the hell happened on my time and I still didn't do that one little thing I got on Facebook to do.

So what I'm saying is, we all have our limitations. I have mine, you have yours? Know yours! Um, so one more point. No paying interest? Absolutely not - we pay our bills off. I will be pissed if you pay any interest because it violates every tenant of good money management, paying interest on credit cards.

So well, that's the that's the talk for today. The whole course with all the templates goes into much deeper into some of this stuff. You get it free with the code, no interest, www.nevharris.com/cashflow or just scan using your phones with the camera on your phone and scan the QR code. You know. This is

not a sales funnel you're entering. This is actually what we sell at the end of our sales funnel. So this is really valuable stuff we sell for \$197 I just making it available to you to do this talk I want you to have it. So, alright. That is that my friends.