Early Growth Financial Services for Startups

“Change is the law of life and those who look only to the past or present are certain to miss the future.” John F. Kennedy

Current studies show most businesses fall short of their growth objectives by a wide margin. Failure rates are as high as eighty percent. Why is attaining your expansion goal so difficult?

One of the most potent success indicators for companies in general and Startups, in particular, is their “Cash Burn Rate.” This indicator shows how much cash the organization is spending each month. The “Cash Burn Rate” is the underlying component of the company’s “Break Even Point” calculation. This is the point at which the business starts to become profitable.

Cash Burn Rate versus Cash Runway

Assuming the Startup has no revenue yet, the “Cash Burn Rate” is calculated by dividing the amount of money the business is spending each month for operations by the total amount of cash in the bank. For example, if you spend $100,000 on operations each month and you have $500,000 cash in the bank, your “Cash Burn Rate” is twenty percent per month ($100,000 in cash expenses divided by $500,000 in cash available).

Your “Cash Runway” is five months ($500,000 in cash divided by $100,000 in operating costs per month). The business must be “Cash Positive” by increasing revenues or raise new funds within five months or it will not have enough cash to pay its operating expenses.

Monitoring Your Cash Burn Rate

The “Cash Burn Rate” of a company is watched very closely by investors because it indicates when an investor can expect to receive a return on their investment. It takes time to build lasting relationships with customers just like it takes time to develop long-term relationships with people. Most organizations underestimate the time it takes to build customer loyalty. How can a Startup best reduce its “Cash Burn Rate” to give it more time to become profitable?

Becoming Profitable

There are only three ways to decrease your “Cash Burn Rate.” The business must increase its incoming cash by increasing revenue, raise more funds, decrease its outgoing cash or both.

One way to reach profitability in record time is to hire an interim Chief Financial Officer (CFO) that has a proven track record working with Startups. When and how to do this is the most important decision a Startup can make regarding the future of the company.

No matter what growth strategy you choose, your company's infrastructure must be able to support its successful execution. Devising the strategy and implementing it are two very different things. The solution lies in focusing on your company's core business.

Focusing on Your Company's Core Business

Your core business is defined as the products, services, customers, distribution channels and geographic areas that yield the largest return on your investment (ROI). It is mission critical that systems be put in place to measure the overall performance of each segment of your core business.

The best place to start the assessment of your core business performance is with the following five questions:

Who are our core customers?

What is our firm's main competitive advantage and how can it be strengthened?

What are the most attractive growth opportunities given our core business?

What performance measurements should we use?

In what direction are key performance indicators going and why?

Key Performance Indicators (KPIs)

Stockholders, investors, customers, and competitors use financial data to measure the performance and sustainability of your business model. Make sure critical Key Performance Indicators are working for you rather than against you.

Your company's current ratio is an excellent example of a very useful financial key performance indicator. The current ratio is your current assets (for example cash and accounts receivable) divided by your current liabilities (such as accounts payable due in thirty days or less). It measures the ability of your organization to pay its current debts within a defined time period.

A current ratio of less than one indicates your company would not be able to meet its current financial obligations within the next thirty days. This could be because of a cash flow problem due to the business funding growth by accumulating debt.

If your current ratio is more than three to one, it could indicate your company is holding excess cash instead of investing it back into the business. This will significantly slow the growth of your organization.

The proper use of KPIs is essential to monitor your firm's financial health and accelerate growth. They provide owners, investors and financial professionals indispensable information about the efficiency of your company's operating cycle. They answer the crucial question:

Is your business able to generate a constant revenue stream with reliability and consistency over a specific period of time?

How We Can Help You

Pacific Crest Group (PCG) provides professional services that keep your business focused on your critical objectives. We provide strategic Accounting and Human Resource (HR) services created specifically to help you meet your goals. Through exemplary customer service, clearly defined policies and procedures as well as a forward-looking perspective, we provide the outsourced solutions your business needs to grow. A PCG professional is happy to meet with you to discuss solutions for your unique requirements designed to maximize all of your business opportunities.