Startups Must Monitor Their Cash Burn Rate to Survive

One of the most potent Key Performance Indicators (KPI) 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 taking 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 will either need to be “Cash Positive” by increasing revenues or raise new funds within five months or it will have to close its doors.

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 under estimate the time it takes to build customer loyalty (see “Money Couldn’t Buy Time for Failed Net Firms”). 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 or raising more funds, decrease its outgoing cash by reducing expenses or both. One of the most powerful ways to reduce your cash expenditures is by outsourcing operations that are not core to your business. This allows the company to concentrate on becoming profitable right away. An example of this is the Pacific Crest Group (PCG) case study titled “Outsourced Human Resources Services to Increase Operating Efficiencies.” In this case, PCG created a time tracking system to analyze employee performance. The process resulted in a substantial increase in profitability in a very short period of time.

Pacific Crest Group provides professional services that keep your business focused on your critical objectives. We create custom made financial and Human Resource (HR) systems based on creative strategies that are always delivered with exemplary customer service. A PCG professional

is happy to meet with you to discuss solutions for your unique requirements designed specifically to maximize all of your business opportunities.