

# Managing Your Cash Burn Rate

Most young companies are resigned to living with negative cash flow until they have the infrastructure, customer base, and product in place to grow sales and turn a profit. The investors that fund this unprofitable period, though, aren't as content to sit and wait until they can theoretically recoup their investments. Before they decide whether to inject capital into a company, these firms look closely at the company's cash burn rate as an indicator of its financial fitness. So what can you do to manage your cash burn rate and prove your financial viability?

## 1 // Pin it Down

To manage your burn rate, you must measure it regularly. Expenses can change dramatically from month to month, and these changes – which can have a significant impact on your burn rate – could go unnoticed without a systematic process for evaluating your burn rate. A month-over-month comparison lets you drill down to see exactly where your business is bleeding cash so you can identify and correct these issues before your burn rate gets out of hand. It also helps you identify your Cash Out date (when you will run out of liquid capital) so you can plan ahead and mitigate cash burn.

## 2 // Keep Small Expenses in Check

When companies see their burn rate rising, they sometimes panic and look to cut large expenses like salaries and marketing spend. In most cases, however, this approach has the opposite of its intended effect: prolonging the period of negative cash flow by not scaling quickly enough. Instead, aim to control smaller cash outflows like supply costs and overdue payments so that you can right the ship without changing its course. Focusing cash on generating revenue is key for keeping your burn rate down.

## 3 // Where Does This Leave You?

For most startups, where running at a loss is par for the course, cash flow is a far more important metric than net income. As such, management should monitor burn rate monthly with a segmented cash outflow report like the one shown below. This way they can react quickly if cash burn starts to accelerate by putting controls in place to slow it down, or to seek another round of funding.

