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5 Tips to Control Your Startup's Burn Rate

San Jose, Calif. – July 18, 2013 – "Startup entrepreneurs must constantly control and monitor their cash reserves, and there are several basic steps to make this happen," says Mark Sheffield, a startup expert at the Silicon Valley accounting firm of Abbott, Stringham & Lynch. "A well-managed burn rate, or negative cash flow, can go a long way to ensure investor confidence and the time necessary to build momentum in the business," he adds.

To control and monitor your startup's burn rate, Sheffield offers these tips:

1. **Keep management salaries low.** Not only will this conserve cash, it signals investors that the founders have "skin in the game." If the goal of the business is to be acquired, low salaries can result in a higher perceived value by the buyer due to the higher profit margin. Your startup may secure larger amounts of funding because the team is demonstrating its personal commitment to the success of the venture. Furthermore, higher profit margins may make it possible to meet the lending requirements for debt financing, giving you more funding alternatives.

2. **Share office space with another business or sublet unused office space.** Alternatively, work out of a founder's house. There are also startup incubators that, in addition to offering affordable office space with flexible short-term leases, offer a host of onsite resources, such as access to investors, mentors, and startup focused service providers. For information on how to determine the right incubator for your startup, consider the National Business Incubation Association's (NBIA) tips for entrepreneurs. If you need help identifying incubators in your area, the NBIA also has a directory of their members, searchable by state.

3. **Consider outsourcing.** Outsourcing can be a good solution for most anything that is not central to the mission of your startup. Outsourcing frees up the management to focus on more important tasks such as product and business development. Consider outsourcing functions such as legal, human resources, IT, accounting, and facilities. Many of these functions require specialized knowledge that can lead do-it-yourself entrepreneurs to make costly mistakes around the proper classification of employees, payroll tax compliance, and having proper revenue recognition policies in place, for instance.

4. **Create flash reports.** These reports, usually monthly, give prompt financial results on key performance indicators (KPIs). KPIs vary from startup to startup, but every startup should track how much cash is going out the door every month, how many months your remaining cash will last, how long it will take you to break even, the cost of acquiring new customers, and the pace of customer acquisition. Flash reports are critical for timely decision making. If you do not know how to create a flash report, ask an accountant to customize a template or do the reporting for you.

5. **Avoid costly equipment: buy used and go SaaS.** If possible, buy used equipment; for example, office furniture. A quick keyword search on used or pre-owned office furniture should return results of liquidators selling furniture either online or locally. Search Craigslist or look at the classifieds in your local newspaper. Many emerging businesses overpay for costly computer systems that don't work as expected or quickly become obsolete. Undertake a "needs" analysis, examining your needs, costs, savings, and payback calculation. Obtain IT solutions from "Software as a Service" (SaaS) providers to reduce your up-front investments. There are many SaaS solutions for both front office and back office functions, so to save time in the discovery and selection stages of your purchase cycle, start your search on GetApp.com, a vendor independent business applications marketplace that has a strong focus on SaaS and cloud based apps.

"Many of these tips require judgment calls and specialized expertise. Consider getting a mentor with an accounting or finance background to provide guidance," said Sheffield. "If you don't have a mentor with this knowledge, it is well worth the money to consult with a CPA or contract CFO – it will pay for itself many times over in cost savings."

About Abbott, Stringham & Lynch (ASL)

Abbott, Stringham & Lynch (ASL), founded in 1977, is one of the leading local CPA firms in the Silicon Valley. ASL provides emerging and mid-market private companies and their executives with accounting and audit, tax, estate and wealth planning, and consulting services. ASL's clients include construction, technology, and real estate businesses among others. ASL is a member of PKF North America, a network of independent CPA firms.

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