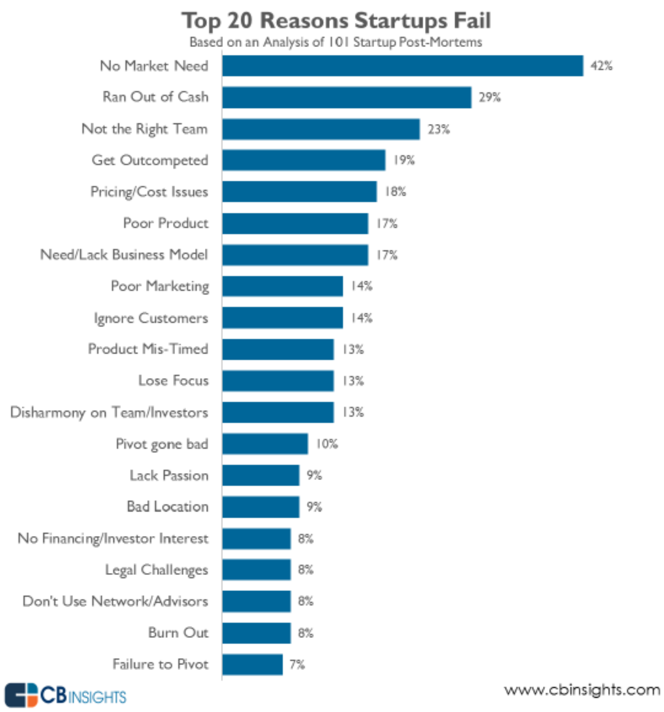
Burning Cash? These Are the 5 Best Ways to Extend Your Startup's Runway

by Dennis Hammer

Your startup needs to spend money to thrive and grow. Running out of cash means that even though you had a great idea, you couldn't execute well enough to turn it into a self-sustaining company.

It's a serious problem you can't ignore. Running out of cash is the second most common cause of startup failure, [according to CB Insights](#) (and I would suggest that "No Market Need" also means you run out of cash).



In order to prevent this you'll need to have a clear understanding of your [startup's runway](#), which is the amount of time until you run out of cash to operate. If your startup doesn't take off by the end of the runway, you fail.

Typically, a runway is measured in months. If you have $500,000 in cash on hand and $35,000 per month in expenses, you can operate for almost 14 months with $0 in revenue ($500,000 / $35,000 = 14.3 months).

Assuming your product has value—meaning it solves a genuine problem people have—it's important to extend your runway beyond the length of time needed to get your product to market. If it takes longer to build and sell your product than you can afford, you'll go broke and fail.

Here are some ways you can extend your runway to give yourself plenty of time to take off:

Table of Contents

1. Reduce Your Expenses

The first thing you should do to extend your runway is cut *all* non-essential expenses. Abandon anything that doesn't directly support your path to profitability. Here are some ideas...

Stay Lean with Your Cash

You can't afford fancy desks, $500 chairs, swag for your friends, or a gourmet coffee machine. Startups are known to give out lots of perks to their employees (and someday you will too), but right now you shouldn't buy anything that doesn't support your path to revenue.

Fire Your PR Firm

Too many startups hire PR and marketing firms before they've finished their product. Angel investor Jason Calacanis recommends taking a DIY approach: "If you need press then figure out who the top five journalists are in your space and send them a personal email." Journalists love to hear directly from founders anyway.

Get Out of That Office Lease

If you have a small team and they *must* work in the same room, rent a coworking space. Coworking spaces are popping up all over the place, not just big cities (find one here). You can rent a desk for $200-$500/person/month—maybe less if you negotiate a group rate. This method also eliminates costs for desks, chairs, coffee, cleaning, etc.

Hire Part-Timers and Freelancers

It's tempting to hire a big team because it *feels* like growth, but it can actually make it *harder* to grow. Instead, contract out every project you possibly can. Sure, you might pay a premium hourly rate, but you won't pay them for downtime.

"While you might have leveraged freelancers before in the tech or design space," says financial services and startup consultant Prashant Vijay, "you can find consultants and freelancers in any business area, from marketing, to sales, to strategy, who can serve as pinch hitters."

If you can guarantee regular work, most contractors will negotiate their rate (e.g. "We'll guarantee 100 hours of work for a 20% discount). Some high-end freelancers will take equity if they believe in your company.

Request Free Server Space

The big cloud hosts like Amazon Web Services, Google Cloud, Microsoft Azure, and Rackspace have introductory programs with free credits for startups. Even if you've already paid them something, ask a representative if you can take advantage of any deals (or join our 10xU monthly membership for free credits).

Explore Inbound Marketing Methods

Inbound marketing is when people find you by searching for answers to their own problems, usually through content (ie- writing blog posts like this one!) and email marketing. There's little expense to this approach other than time and email tools (MailChimp is free for your first 2,000 subscribers), but it can take six months or more before you start seeing results.

Trim Down Your Team

If you've already hired someone who isn't *absolutely essential* to the startup's growth, let them go. Unnecessary salaries can sink your startup. A great example is when someone hires a sales person a year before the product is actually ready to sell. Wait until you're closer to launch before you start spending that money.

Use an Attorney That Specializes in Startups

You *need* a lawyer for some things, but attorneys are expensive. Find one who structures their costs in a non-burdensome way in the beginning. Some will defer until you're profitable or trade services for equity.

2. Grants or Debt

Grants are money that someone gives your startup with no expectation of payback. These are often available for minority-owned companies, or startups focused on particular fields like education or science.

We recommend bootstrapping your company as much as you possibly can, but if serious growth is within your grasp and you're confident you can make the payments, sometimes borrowing money is the way to go. The catch is that most small business borrowing requires a personal guarantee if the business doesn't have assets and/or a two-year history of profitability. So you're on the hook to pay the money back even if your startup fails. Consider whether you're comfortable risking your financial future before you take out a loan.

Servicing debt adds a monthly burden. This type of cash infusion might extend your runway, but the payments hasten how quickly you move down it. If the debt payments are large enough, they may actually prevent you from pouring money into growth.

The biggest advantage to taking on debt is that you don't lose a piece of your company. Unlike selling equity to a venture capitalist, you still own 100% of your startup. In the long run for successful companies, debt is cheaper than equity. For companies that fail, you'd rather have raised money through equity so that you don't have to pay it back.

Venture debt is specially tailored for startups. It's usually restricted to companies who've already raised money through professional investors, but sometimes lenders will give money to seed-stage / pre-revenue companies.

3. Defer Compensation

Payroll is often the largest startup expense, so deferring it will extend your runway.

Every founder forgoes a salary, at least for a while. Many deny themselves compensation for several years. Your early hires may work under the same system, especially if you promise them equity in the business.

In order to offer equity, you'll need to create a legal entity and draw up the correct paperwork with a lawyer. You'll also need to navigate any tax consequences. Startups typically offer "founders shares" to the original team, and options to employees who join later.

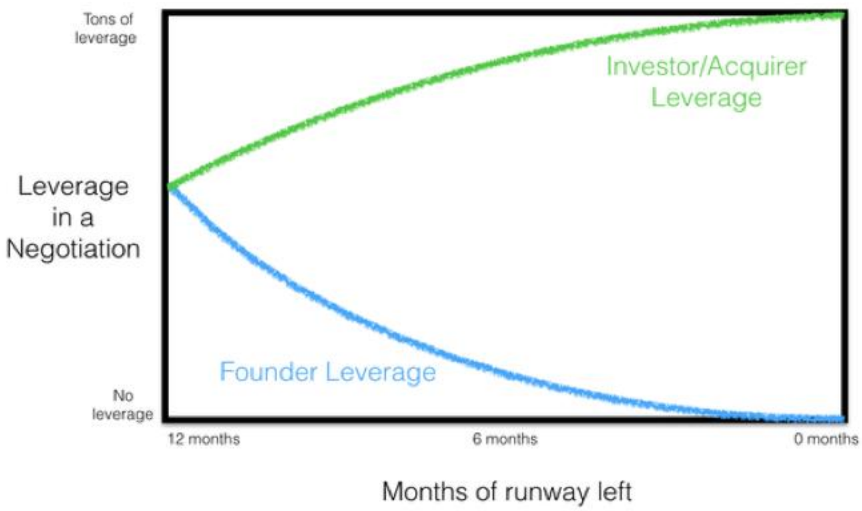
When you start hiring team members, explore if they'd be willing to defer their compensation, which means paying their salary sometime down the road. For instance, you might defer their pay for the first year, and then pay 120% of the compensation for years two through six. Be careful with this, because people will get upset if you can't deliver their expected salary in year two.

4. Raise Money

Investor funding is one of the most common tactics to buy more time to develop the product and find a good fit in the market. How much you should raise depends on how much you need—and how long it will take you—to become profitable. Taking money means giving up some of your company, but it's often a good thing to have more people helping you succeed—especially if they can offer you expert advice and introductions along the way.

Funding has some other benefits, too: It can make customers trust your company more, makes it easier to hire talent, and makes the *next* round of funding easier to acquire.

Keep in mind, however, that raising seed money from investors shouldn't be your "last ditch attempt" to revive a startup near the end of the runway. It's much easier to raise money when you DON'T need it (the same is true of lenders, so it's much easier to borrow money when you don't need it too). The closer you get to the end of your runway, the less interest investors will have, because you're more likely to fail. Investors want to put their money into companies that are likely to succeed. If you think you'll need to raise money, *plan early.*



5. Start Making Money

"There is a healthy tension between profits and growth," says Mark Suster, a 2X startup founder who sold both companies, one of them to Salesforce.

Scott Anthony writes in the Harvard Business Review that startups should focus on "learning that helps them iterate towards a sustainable, scalable business model."

In some cases, it's smart to sacrifice profitability *today* for growth that leads to greater profitability tomorrow. This strategy is common among startups who hope to collect millions of active users.

Facebook resisted the urge to collect a profit for *years* until their site became the ubiquitous social media platform. They focused on growth, and didn't seriously monetize until 2012—when they had more than a billion users. Uber has never figured out how to generate a profit, but they've achieved massive, rapid growth. Uber has certainly made their investors and early employees a ton of money with the recent Softbank deal.

On the other hand, Yammer (a niche internal social media platform for companies) had a clear revenue model from the beginning. They were charging companies for each account back when they only had 60,000 users.

Massive growth and explosive monetization are sexy goals, but if your runway isn't long enough to get you there, start finding customers right away. Reid Hoffman famously says, "If you're not embarrassed by the first version of your product, you've launched too late."

You can sell your product even if it's only partially complete. It's better to sell what you have available than go out of business.

Keep in mind that you don't have to *be profitable*. You just have to bring in enough cash to extend your runway. For instance, if you had expenses of $5,000/month and $90,000 cash on hand, your runway would last 18 months. If you managed to sell $2,000/month, you would still lose $3,000/month, but now you would have 30 months to build your product.

Also consider taking on consulting gigs or working part-time while you're getting your business of the ground. It slows you down, but it also helps pay the rent in the early days of your startup.

Don't Let Your Runway Surprise You

As a founder, tracking your startup's runway is one of your most important tasks. In fact, running a business is actually about numbers. Get in the habit now of proactively managing your company's finances. Plot your runway regularly and often so you know exactly what you need to do. If you don't, you might wake up one day to find yourself out of cash and out of business.

Ready to take your startup to the next level and 10X your growth? Learn more about how our community of company builders can help.