Stanford eCorner

Managing the Burn Rate

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Larsen and Breyer explain the lessons learned during the bubble. They suggest that it is important to spend frugally and get the maximum value for every dollar spent, regardless of the amount of money present in the bank.

Transcript

Talk about burn rate. There are all types of different views of burn rate. You have been through it. You have seen several signs. Do you really want to know? I really do, absolutely. Chris has done a great job on this. That's an easy question, but its a remarkable thing because a guy like Chris, I mean, we raise money quickly successfully on a second round, there is a lot of money in the bank. We see most entrepreneurs when they have that money. They find ways to spend even if they say they might not. You've done a great job but why has it been so important for you to really manage that burn rate.

Keep it very low. You should build the business. You've spent no money on marketing. Maybe take us through that and what advice you would give having been through cycles and how people should think about it. Yeah, it is probably the fear of what we all did during 1999-2000, the sort of land grab, you know, where we all spend them like drunken sailors and you don't force into it. You know, we did the $5 million Yahoo deal that brought in a million dollars with a business. You know that was like what the hell are we thinking and we are all celebrating that because it was great. The answer was good. I mean, it was a good press release. It lead to Goldman, you know, working with us for our IPL that lead to another round, which you know, kind of, it sort of made sense back then but its a reckless way to run a business and it was all about marketing.

So, I think, you know, now it is more about focus on technology. Let's says that is probably definitely the 2.0, you know kind of element now and try to find ways of while doing marketing. You know, a deal what we had to do. We went public in 1999. We had to do a pipe private, you know, kind of post IPL rounds. It is so painful. By the way, it is 40 million bucks. Because the market had crashed, we could not do a secondary. We would ran out of business. We had probably a couple of months runway and Schwab came up and invested and sort of saved the day.

But that was incredibly horrible experience. I never want to do that again, so getting enough money, you know, kind of under your belt to work through, you know, kind of the storms. It is a great time you raise the money now. That is way we raised the second round and we got some great partners but you know being able to have that money in the bank to get to profitability, finding by our ways of spending, not depending too much on the Googles which are really the crack right now of marketing and this prices are really getting a bit up, especially in finance. There's no way to build a business these days. No absolutely not. You got to find some other route around that or you just going to be, it is the same problems with the portals in 1999-2000. So, yeah, that is really the key. So, what I can say and it sounds so easy and in 95% of the cases it does not happen. I can't recall a board meeting where Chris or the team said we have 12 or 15 million dollars in the bank and therefore we want 12 months of run way and therefore we should spend X.

Every board meeting is about here are the risks we have identified, here is what the business looks like. We are happy to loose a little bit of money and will define it like that until we get visibility around some of these different market, technical, and regulatory risks and there is a complete separation between what is raised and what is in the bank and what's the appropriate amount to spend and I can't tell you how important that is and how rare it is to do that. I think that time and time again, I think of the companies that we have seen at XL, maybe it's just our portfolio, who knows. But 95% of the companies even if they say we are going to go out and raise 25 million dollars and we are not going to spend it quickly, the moment that money comes in, something changes. And so I think that it is the rare entrepreneur, Chris is one of them who can completely separate the two, so the balance sheet is incredibly strong. We have the money. We know we are not going to run out of cash in the next 12 or 18 months and unless you tell me something I don't know. It is OK. So, we do not sit there and talk about what we could spend. We only talk about what is the minimum amount we can spend to build the right culture, build the right set of milestones, so that we really have visibility on the business and I see it time and time again.