

Challenge 4

Cash Runway: A Capacity and Readiness Challenge

Challenge 4 Focus:

- Identify and improve your use of cash for monthly milestone achievements and best year end results.

What you get by completing Challenge 4:

- Clarity on the cash you have, will need to use, and will need to raise (or not) for milestone achievements.
- Methods to improve resources you have and can use to reach your best year end results.

Resources included with Challenge 4:

- A. Improved Resource Capacity and Readiness
- B. Worksheet: Projected Cash Runway and Needed Resource Achievements
- C. Example: Sample Worksheet

Challenge 4 Guidelines:

- 1) Have your Milestone Achievement Map (from Challenge 3) at hand in order to work on this Challenge and complete the Worksheet (Resource B above).
- 2) Refine your venture's cash story by outlining a chronological alignment of cash sources (who you have and/or will get money from, e.g. friends & family, angel investors, banks, etc.) and cash uses (where you will spend the cash, i.e. on product, customer and market and/or team costs)
- 3) If applicable, be clear in identifying where and when any shortfalls in cash arise for the year by the specific month and milestone achievements at which they will occur (i.e. if there is a cash gap for any period, identify and list the specific physical resources needed for any milestones that you can't pay for during that period).
- 4) In identifying gap resources, be clear on only defining the specific physical resources that would cost cash (e.g. salaries for team; kitchen equipment) from the outputs they would produce or create (e.g. web apps, culinary events, etc.)
- 5) Play around with various cash runway scenarios that balance bootstrapping with fund raising and innovating skills until you define the most desired path to your best year end results.

Challenge 4 – Resource A

Improved Resource Capacity and Readiness

At this point you've developed your best year end results (Challenge 2) and mapped milestone achievements month by month (Challenge 3) for the year. You now know what results you want to achieve and by when. Let's confirm you've got enough of the right resources to do it.

The amount of time your venture is able to spend cash into the future to achieve milestones is called your runway. Some founders discover how to extend their cash runway by bootstrapping a broader set of resources to decrease cash use as much as possible. Others simply go out and raise more money. Some do both. All of these options focus on improving your venture's capacity and readiness to achieve results:

Improved Capacity – the development of enough applicable physical resources for milestone achievements.

These resources fall into three categories:

1. People talent (e.g. product developer, sales person, etc.)
2. In-kind (office space, kitchen equipment, etc.)
3. Cash (free money, borrowed money, equity sold for money)

Founders skillful at bootstrapping enough people talent and in-kind resources can start immediately, compress time to complete milestones, and pitch to success their real progress to granting institutions and competitions, banks and equity investors:

The easiest way to raise money is to need none to start and less of it to finish

Improved Readiness – the effective timing and use of developed resources to achieve milestones on time with profits (or with enough savings to profit on future revenues).

Two major timing and use skills that impact your cash runway here include:

1. Applied time of physical resources needed and used vs elapsed time to result
2. State of the art or new resources use vs good enough or used resources

Examples, applied vs elapsed time:

- A founder testing an event food service business idea by fixed cost, annual lease for a restaurant space or food truck purchase vs a series of variable cost pop-up events.
- A tech founder hiring a full-time CTO (a high, ongoing fixed cost) to build out their 30 day mobile app project vs hiring an outside firm (a high, one-time cost) to build it.

Examples, new vs used:

- Finding it easier to buy showroom kitchen equipment all at once vs hunting used equipment from competitors and liquidation sales
- Building an app from scratch vs white-labeling an already existing one that works

Challenge 4 - Resource B

Worksheet: Projected Cash Runway and Needed Resource Achievements

Use your Milestone Achievement Map (Challenge 3) to explore where, when and what resource capacity and readiness you can develop to improve your current runway and potentials for raising new cash. Complete the table with your actual cash runway and choice of needed resources expected that you will bootstrap or raise during the year.

Month	\$ Balance (or Cash Gap)	\$ Amount In /Sources	\$ Amount Out / Uses	Needed Resources Expected (for Cash Gap)
Apr				
May				
Jun				
Jul				
Aug				
Sep				
Oct				
Nov				
Dec				

In addition to bootstrapping, you can also conserve your cash needs for venture product, customer and market and team development expenses by:

- De-risking milestones (proving out execution options and product developments on a small scale before incurring large fixed or variable costs).
- Compressing time to milestone progress (speeding up achievements and reducing cash burn duration).
- Innovating around the timing and use of all human and in-kind resources (avoiding, reducing, deferring and substituting fixed for variable costs).

Challenge 4 – Resource C

Example: Sample Worksheet

PartThyme, Inc.

Month	\$ Balance (or Cash Gap)	\$ Amount In /Sources	\$ Amount Out / Uses	Needed Resources Expected (for Cash Gap)
Apr	\$50,000 / founder cash	\$0	(\$15,000) team salaries	
May	\$35,000	\$30,000 / TechFuel award	(\$15,000) team salaries	
Jun	\$50,000	\$0	(\$35,000) team salaries	
Jul	\$15,000	\$7,500 / customer rev	(\$22,500) team salaries	co-founders defer salary for the month
Aug	Gap \$0	\$12,500 / customer rev \$10,000 loan	(\$22,500) team salaries	co-founders defer salary for the month and loan \$10,000 to fund operations
Sep	Gap \$0	\$12,500 / customer rev \$10,000 loan	(\$22,500) team salaries	co-founders defer salary for the month and loan \$10,000 to fund operations
Oct	Gap \$0	\$20,000 / customer rev \$10,000 loan	(\$22,500) team salaries	co-founders defer salary for the month and loan \$10,000 to fund operations
Nov	\$7,500	\$20,000 / customer rev	(\$22,500) team salaries	co-founders defer salary for the month
Dec	\$5,000	\$50,000 / customer rev	(\$35,000) team salaries	

Notes: Our product development was done in April, so we had no forward opportunity for in-kind cost savings; similarly we targeted rapid market expansion with customer service and ran deficits to hire full-time sales teams in June to service our expansion, betting on sales to drive month over month revenue growth to pass break-even by year end.