

## Calculating and reducing your cash burn-rate

If your business is under financial stress, there are actions you can take to minimize the impact while long-term you may need to rethink how your business operates. Once you know your timeframe to make changes you can prioritize what to do next.

It's more common in new start-up situations where the business starts with zero sales, raises capital, incurs expenses and then finally makes a profit. But if you are an existing business and suddenly face a large unexpected drop in sales outside your control, you may find yourself in this negative cash burn situation.

Work out the burn rate and calculate how many weeks/months you have until the cash is gone. This gives you the time left to make the decisions to turn the business around.

### Calculate your cash zero date

This isn't as hard as it sounds. First, add up all your existing weekly expenses from your cash flow. Then depending on your current sales level, calculate how much money you are 'burning' or losing each week.

Divide this weekly burn into the amount of cash reserves you have. This provides the weeks until you run out of cash if everything remains the same. Your sense of urgency will be directed by this number. There are four ways you can extend this timeframe: reduce the burn rate, increase cash reserves, delay payments and seek more revenue streams.

### 1. Reduce the burn rate

Depending on how the crisis has impacted your business, remove any expenses or costs that you can while still able to operate. The more you can cut the better if your business is in serious danger. You can do this by taking action:

- Cut all unnecessary costs
- Take contracted out services back in-house
- Negotiate a rent deferred payment plan
- Reduce staff hours or announce redundancies
- Change monthly plans to a lower rate
- Contract out staff to a busier business
- Close parts of the business

Go through your last few months of invoices and credit card statements to see what could be cut. There are probably a number of expenses in your business that you could do without and now is a perfect time to review them.

### 2. Increase cash reserves

The more cash you have in reserve the longer you can ride out a dip in sales. But if the crisis looks like it will be lengthy and you know the current cash you have will run out sooner than later, then you will need to access additional money when you need it. Traditional methods like business loans, overdrafts and adding in more of your own capital will work for a time, but it could be timely to identify other ways to increase your cash balances:

- Liquidate any unused assets
- Reduce stock levels
- Clear out obsolete raw materials
- Crowdfund or seek external investors
- Explore Government subsidies or grants

If you can, set up regular contributions to a business savings plan or have contingencies in place to access capital when you need it.

### 3. Delay payments

Another option to reduce the immediate burn rate is to delay payments to a later date. This doesn't mitigate the fact that you still owe the money to the supplier, but it may buy you some time to recover. Examples of payments you could try and delay short-term include moving to interest-only loans, asking suppliers to partial pay or pay at a later date and contacting the IRS to query deferring any tax payments.

# GUIDE

## 4. Identify alternate revenue streams

Finally, don't wait for others to bail you out. Remember the focus when you first started your business and look for what else your business can do to weather the storm. It could be possible to move parts of your business online, joint venture with strategic partners, identify new customer segments or possibly reinvent the business and look for a new market.

If your business is under threat of closure due to external events look at all the ways you can generate revenue from other sources to offset the impact of external events.

If you found this article useful, visit [voyage.harborone.com](http://voyage.harborone.com) for business advice, tools and templates. Topics include business recovery, improving cash flow, growing sales and succession.

Plus access free business plan and cash flow templates, calculators and checklists.

### **CONTACT US**

Contact a Business Banking Specialist at

**877-997-9957**

#### **Disclaimer**

For informational purposes only. There is NO WARRANTY, expressed or implied, for the accuracy of this information or its applicability to your financial situation. Please consult your financial and/or tax advisor.