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Pull A Bill Gates: Don't Let Your Company Drown... In Cash

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I offer street-smart startup advice.

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Even as a young man, Bill Gates knew that raising too much money, too early, can drown a company. It can provoke spending on unproven business models, hiring employees before their talents can be fully tapped and entering into long-term, unsustainable relationships with partners, landlords and other third parties.

To avoid these death knell mistakes, create a culture in which you and your employees (your CFO excepted) spend your precious cash with zero regard for how much money you have in the bank.

Sound counterintuitive? Hardly. Startups should only spend their money on initiatives that deliver a discernible, measurable return on investment.

"Instead of buying airplanes and playing around like some of our competitors, we've rolled almost everything back into the company."

Bill Gates, Founder Microsoft **[Tweet this quote]**

For many years after Microsoft became highly successful, its executives (yes, including Mr. Gates) flew coach. Clearly they could have afforded more luxurious accommodations. However, Gates and company realized that there were far more productive uses of Microsoft's cash than to expend it to ensure the temporal comfort of a handful of traveling Executives.

Remind your team that every dollar spent in a non-productive fashion directly impacts each employee. In a venture's early stages, it equates to an additional dollar that must be raised in a future funding round, thereby diluting every shareholder. In a company's latter stages, a wasted dollar directly impacts the company's valuation because it reduces the company's cash flow.

Bill Gates. (Photo by Michael Gottschalk/Photothek via Getty Images)

Mayday

The most prevalent cause of private aviation accidents is running out of fuel. In most instances, the pilot miscalculates the amount of gas required to reach his destination. A number of issues can impact aviation fuel usage, including: headwind, speed, average altitude flown, cargo weight, number of passengers, etc. A mistaken assumption can result in a crash landing, and the pilot's grieving family on the 11:00 news.

Cash is the fuel in your startup's tank. You won't reach your destination without enough of it. Yet your company can only comfortably make use of a finite amount at any given time. Thus, it's prudent to consider your venture's journey as is akin to a trip across the desert with no gas stations en route.

You cannot afford to speed, gun the engine, take detours, or spend your precious cash on a killer stereo to entertain you during your trek. If there happens to be a gas station along the way where you can fill up for a reasonable price, great. However, do not count on it. Ideally, future funding should be discretionary to propel prospective growth, not a matter of survival.

At Expertcity (creator of GoToMeeting, acquired by Citrix), we raised $30 million at an $80 million pre-money valuation – for a startup with absolutely zero revenue. After we closed this funding round, I vividly recall a conversation with a senior engineer who was aghast that I was not willing to commit millions of dollars to a billboard campaign in Times Square.

His argument was, "What's the risk? If it doesn't work, we can just raise some more money." This is not an apocryphal story. These words were actually uttered by an otherwise intelligent human being. This absurd statement caused me to realize that I had done a poor job of instilling a sense of frugality into our organization.

Thrive Below Your Means

The following simple (and admittedly obvious) tactics will result in real savings and will help to ensure that your employees spend the company's money as if it were their own.

Praise Frugality - Instill a sense of pride in your employees to never pay full price. Encourage your team to ask, "Is that your best price?" when they rent a car, check into a hotel or buy anything material. In addition, create a forum to acknowledge and reward employees who put into practice this important aspect of your startup's culture. These simple steps will result in real savings and will help to ensure that your employees spend the company's money as if it were their own.

Deputize A Negotiator - Assign someone on your Finance team the responsibility of negotiating all of your company's large purchases. At Expertcity, I shared the cost savings with our financial analyst. For every dollar he saved the company, he earned twenty cents toward his quarterly bonus. Once he proved his negotiating skills, people from across the company brought him significant purchases to negotiate.

Embrace Previously Owned - Despite the fact that we had over $30 million in cash in the bank at Expertcity, I dubbed one of our salespeople "Liquidator Larry", due to his talent for purchasing used office equipment and furniture from failing companies. Our venture was located in an incubator, and as each of our neighbors went up in flames, we purchased their office equipment (and sometimes even their office supplies) in conjunction with taking over their office space.

In some cases, we were able to acquire a sizable amount of office equipment and furniture for free, in exchange for relieving the failed companies of their lease obligation. It was more than a fair exchange, as we relieved several people of multi-year lease obligations that would have been disastrous to their personal finances.

Go Utilitarian - Avoid pricey office space and expensive furniture. In a few select instances, such spending might be warranted, especially in the public aspects of your business (e.g., your lobby, customer training rooms, etc.). However, when outfitting your offices, keep your ego in check – only purchase expensive accouterments if they directly lead to incremental sales.

Darwinian Reality

The bigger the better, in everything."

Freddie Mercury, UK Rockstar

Freddie may be right when it comes to the hedonist life of a rocker, but he couldn't be more wrong with respect to startups.

Companies do not run out of money. They run out of investors willing to give them money. You can avoid running out of friendly investors by ensuring that every dollar spent at your startup is associated with a clear and measurable return, no matter how much money you have in the bank.

Follow my startup-oriented Twitter feed here: ***@johngreathouse****. You can also check out my hands-on startup advice blog* ***HERE****.*

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I am a serial entrepreneur and investor turned Professor of Practice at UC Santa Barbara. I led Computer Motion's $110 million IPO and the $236 million sale of... **Read More**