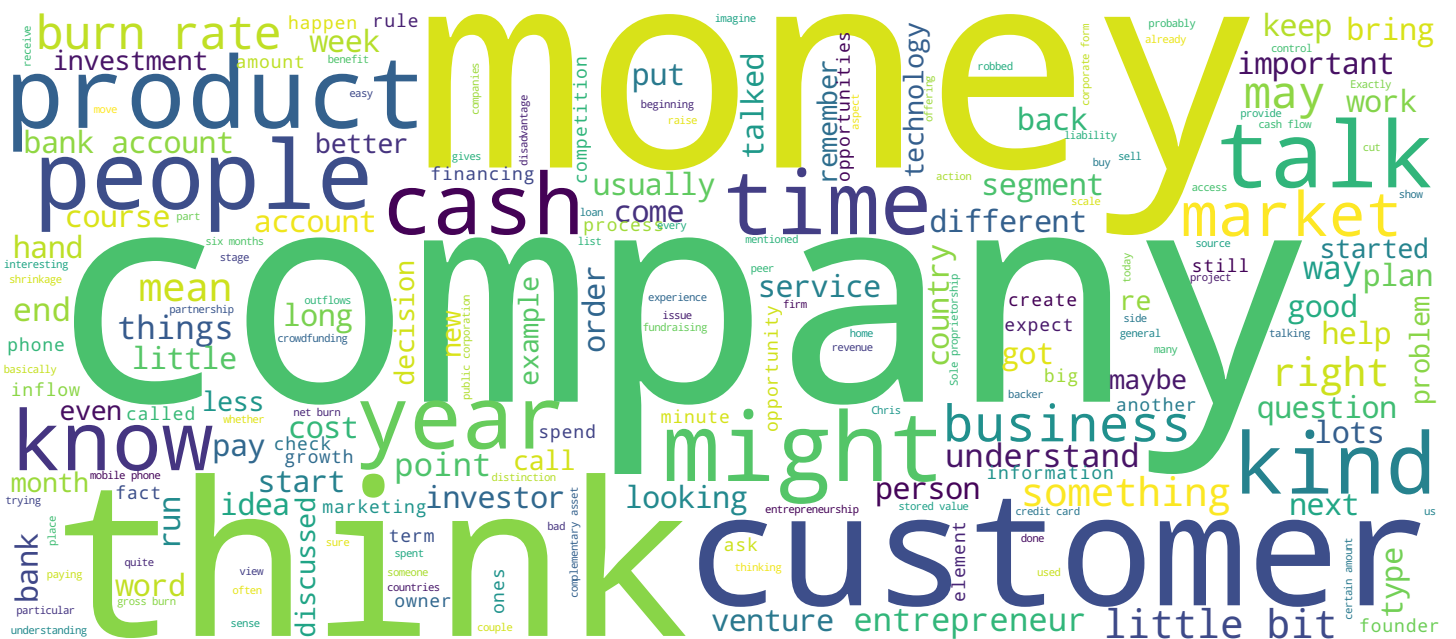


4.6 Cash Management

Launching New Ventures: Entrepreneurship & Strategy for Technology-Driven Startups

Prof. Chris Tucci and Prof. Marc Gruber



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Cash management problems

- Overspending
- "Shrinkage"
- Theft

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- Corporate form (ease vs. liability)

Non-bank solutions

- Mobile money and electronic payments

Launching new ventures

All right, welcome back to 4.6. This is about cash management. We're going to talk a lot about the main problems of having cash. Actually, there's really only one main problem, which is just not having enough of it. The only question is, how do you not have enough of it? Do you overspend what you have, are people stealing from you, etc. We'll talk a little bit about your "burn rate", which we mentioned this past week, how to manage it and keep it lower. We will talk about different kinds of accounts, and why you want to keep your accounts separate. We'll discuss banking, what to look for in a bank, and we'll also end up with some non-bank solutions, including electronic payment-type options for people to avoid carrying around excessive amounts of cash.

Notes

Summary



0m 08s

Week 4: Raising & Managing Money

Launching New Ventures: Entrepreneurship & Strategy for Technology-Driven Startups

Prof. Chris Tucci and Prof. Marc Gruber

All right, let's discuss overspending a little bit. So, just to make our definitions a little bit clearer, what you need to do is look at all of your inflows and outflows of money. Now, for the sake of this exercise, I'm suggesting that we ignore accounting classifications. What does that mean? When you spend something-- let's say that you were to buy a new computer, and let's just say it costs \$1,000-- there's lots of different ways of thinking about how that money is being spent. Are you amortizing it, over a period of a certain number of years? Are you depreciating it? etc. But what counts for our purposes today is, how much cash did it cost you to buy that computer? If you had \$1,000 in your bank account and you spent \$1,000 on the computer, now you don't have any more money in your bank account, okay? That's what we're talking about-- your inflows. Now, maybe someone paid you \$100 because they owed you \$100 from something else. So, now you have \$100 in your account. So this is the idea, this is the exercise: we're looking at the inflows and outflows of money, regardless of their accounting definitions or whether you book it as a profit or a loss or anything else, we're just looking at total cash spent and brought in.

Notes

Summary





- Look at all your **inflows** and **outflows** of money
 - For the sake of this exercise, ignore accounting classifications (!)
- At the **beginning**, you are often spending more than you are taking in
- The **difference** between what you are spending and what you are bringing in is called the **burn rate**
 - Some people draw a distinction between total outflows (*gross burn rate*) and net outflow (*net burn rate*)
- Depending on how much you start out with, you can quickly calculate your **"time to out of cash"**

Launching new ventures

Okay? So, in the beginning-- as we've already mentioned multiple times now-- you're often spending more than you're taking in. And the difference between what you are spending and what you are bringing in we call the "burn rate", okay? Some people also call it the "net burn rate", to draw the distinction between that and just the total outflows, which can be called the gross burn rate. So if we just look at how much we're spending in every month, let's just say, on a monthly basis, we will call that the "gross burn rate", and then, if we are indeed bringing some money in, then we would subtract that from the amount we're spending and that would be the "net burn rate". Why would we want to do this exercise? Because we use this burn rate to figure out how much time we have left before we run out of cash. That's called the "time to out of cash". So, if you have a certain amount of money in your bank account, and you have a burn rate, then you can divide one by the other and come up with how much time do you have before you run out of cash.

Notes

Summary



2m 17s

So how much money do you need (from 4.1)?

	Year 1	Year 2	Year 3	Year 4	Year 5
Revenues	0	50	100	200	400
Costs	100	110	120	130	140
Profits	-100	-60	-20	70	260
Cumulative	-100	-160	-180	-110	150

Launching new ventures

Let's revisit the slide that we looked at in 4.1 when we were talking about how much money we need. This was for fundraising purposes, but now we're going to use it to think about burn rate. So, as you can see from this chart here, we have the years across the top. And down on the side, we have Revenues, Costs, Profits and Cumulative Cash Flow. Again, we're not going to be too concerned about the accounting definitions of profits and losses here. We're just mainly looking at the cash flows. And so, as you can see, in the first year, there are no revenues. And in the second year, we have \$50. We continue to spend \$100, \$110, \$120, \$130, \$140. So, we always have costs, and eventually we gain more and more revenues, so that we end up losing \$100 in the first year, and then that has a cumulative effect of having \$100 less than we started with at the end of the first year. So now, what we're going to do, is we are going to zoom in on year two, and think about how this cash is flowing in year two. In year two, we have \$50 revenues coming in, and we have \$110 gross costs going out. So, therefore, we are going to be \$60 less at the end of year two than we were at the end of year one.

Notes

Summary



3m 25s

Example from Year 2



Cash Y0	150
Cash after Y1	50
Y2 revenues	50
Y2 revenues / mo	4.17
Y2 costs	110
Y2 costs / mo	9.17
Gross burn	
Burn rate	5
TTOOC (mos.)	10

Launching new ventures

Okay, let's make one further assumption here, and that is that we started this whole exercise with \$150 in the bank. Now, we mentioned already that after the first year, we were down \$100. So, therefore, if we started with \$150, we would end up with only \$50 at the end of the first year. Now, if we look at the year two revenues, you can see that we're going to bring in \$50, which is a little over \$4 per month. And, furthermore, if we look at the total costs, that's \$110, that's just a little over \$9 per month. So, we would say that our gross burn rate was about a little over \$9 per month. Now, the net burn rate, or what most people would just call the burn rate, is \$5 per month. And, therefore, what we will do, is we look at how much cash we have on hand, at the end of the first year, the beginning of the second year, and now we know that we have \$50 and we're going to spend, on average, \$5 per month, roughly. So that means we have ten months until we run out of cash.

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5m 06s



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Launching new ventures

All right, let's think about why the burn rate is so important. Obviously, time to out of cash gives you some rough estimate about how much longer you can continue on with your current operations if you maintain the status quo-- you don't change anything, you just bring in the money that you expect to bring in and pay out the money you expect to pay out, and how much you have in the bank, therefore it gives you a little estimate about how much longer you can, more or less, stay in business. Okay, I could say it helps you with the discussion about growth and scale, because sometimes we need to sacrifice cash to gain scale in the future. We've talked a little about growing and scaling your business last week, and so this might help with the discussion, right? If you know you have a lot of time to out of cash, and your burn rate is relatively low, then you might want to make a move which would then bring up your ability to scale up your business and have a higher growth opportunity. If you think you're burning too quickly, you might have to scale back a little bit, which then might limit, at some point, your future growth possibilities.

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0m 10s



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Launching new ventures

It depends on the infrastructure investments that you need to make to be able to scale up your business. Now, how long should you have before you run out of cash? Most people would say that you need to start getting worried when you have less than six months to go, that you really need to cut back at that point, and start fundraising or raising revenue. So, you need to attack one or all three of those points, right? You've got the total amount in your account, in your bank, or whatever cash on hand, and then you've got your revenues coming in, your inflows, and you've got your cash flowing out. So you need to either build the amount that you have to start, your endowment of assets, via fundraising, you need to increase your revenues, via sales, and/or you need to cut your costs, your cash flow. We'll talk about that in a few minutes. The burn rate also helps you plan your fundraising, just as I mentioned. So, you think you might need to raise funds, you're starting to run out of-- people call it "running out of runway". So it's as if you're landing a plane, and you've only got a certain amount of runway left in front of you, so when you start running out of runway, you start getting worried.

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0m 12s



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It helps to plan your fundraising a little bit. "Gee, I've only got a year left, I need to start thinking about that now." And if you recall back to the segment this week on fundraising, we went through the rough estimate about how many months it takes to get certain amounts of funding. So, this will help you make your plans, because if you know you have a couple years, then you can take a little longer, and try to raise money from a source that might take longer. Otherwise, you may be limited to some relatively short-term sources of financing. It also gives a signal to the investors what you're looking for. You know, are you looking for a big growth opportunity, are you looking for a big rollout, a marketing campaign? And so, how much money you're raising relative to your burn rate can also be an important signal to investors. And then, finally, the burn rate can point out weaknesses in your revenue model. So, if you have revenues that come in only every once in a while, and something happens between now and the next time your revenues come in, you could end up getting into a position where you are out of cash faster than you thought you were going to be.

Notes

Summary



0m 14s



- **Time to out of cash gives an idea on how long you can continue the status quo**
 - Helps with decisions on growth and scale
 - Be careful when you have less than six months to go!
- **It helps you plan your fundraising**
 - Focuses attention on speed of fundraising
 - Signals potential investors what you are looking for
- **It points out weaknesses in your revenue model**
 - Prefer recurring revenues
 - Vulnerabilities exist when outflows are constant and inflows are punctuated

Launching new ventures

So, there are vulnerabilities exist when your outflows are constant-- which is usually the case, because you're usually spending money on salaries. And when your outflows are constant, and your inflows are punctuated-- so, only every once in a while do you actually get an inflow-- you have a vulnerability there, that you might run out of cash before your next inflow. Let's look at a little example of that.

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10m 50s



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All right, this is just zooming in on year two from the prior example, right? So, we still have the same \$50 revenues, and we still have the same \$110 costs, but now we're going to break it down on a month-by-month basis, and remember, we started this year with \$50 in the bank. And what you see here that stands out is, we do not have a recurring revenue source. We have six months without any revenues, and then, in month seven we expect to receive \$40. However, our costs are almost constant. There's a couple major expenses we have later in the year, but we have \$8 a month for eight months in a row. And then we have an additional cost of \$15 in month nine. Now, if you think about this, it's actually not a great situation to be in, right? You started with \$50 at the beginning of the year, and now you're going to spend six times eight--you're going to spend \$48 before you get your \$40. And so, you only have \$2 left at the end of six months, and then you're going to start incurring costs in month seven, and so if there's a delay of these revenues, you will run out of cash before you can receive the money.

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0m 16s

Example from Year 2

M1 M2 M3 M4 M5 M6 M7 M8 M9 M10 M11 M12

Revenues 0 0 0 0 0 0 40 0 10 0 0 0

50

Costs 8 8 8 8 8 8 8 8 15 8 8 15

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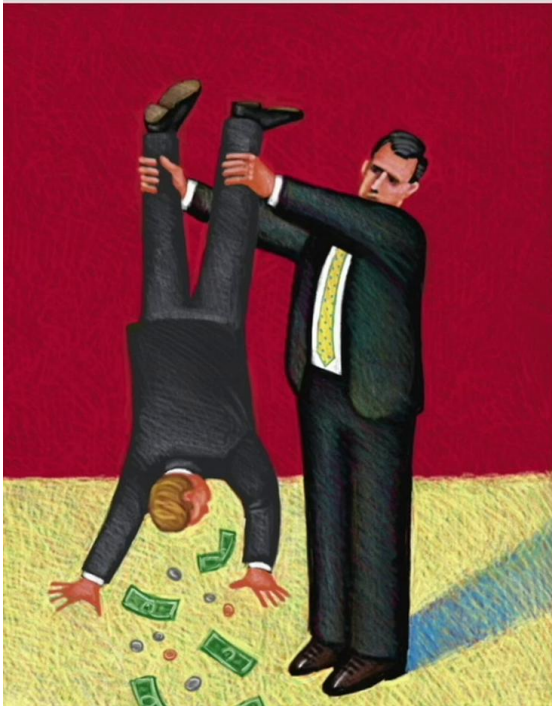
If the economy tanks and the person decides they don't want to do it anymore-- or if it's a company, if you're expecting money from a company, from a big customer, this also shows you-- you're depending on a major event here to help keep you afloat. So, this is kind of a dangerous situation to be in, right here. We got this big revenue coming in that's paying for the whole year, essentially, what you are counting on. And you are going to run out of money before six months, or around seven months, if that doesn't come through.

Notes

Summary



12m 28s



- Shrinkage is when people steal from you, usually “insiders”
- In many cases it refers to **employees pilfering** physical products out of inventory
- However, it can also refer to any aspect of insiders **siphoning money or assets** from the company
- Guess which person in a startup is the most likely to pilfer assets from the company?

Launching new ventures

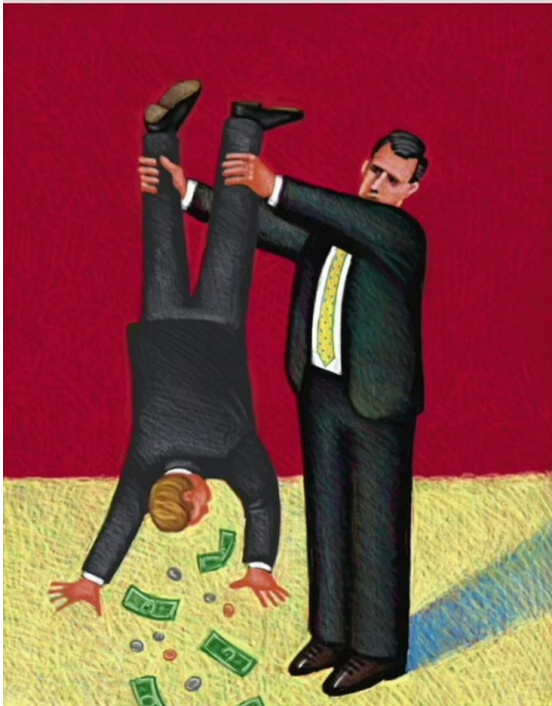
All right, let's talk about shrinkage. What is shrinkage? Shrinkage is often used when people steal from you. In many cases, we consider shrinkage when it's insiders who steal from you. So, it's not necessarily someone stealing-- we'll talk about that next, someone just robbing you or something-- this is usually someone taking a product before it gets a chance to be delivered to the customer. It could be physical products, that are being pilfered out of inventory and then sold or used at home by employees. However, it can refer to almost any aspect of insiders siphoning money or assets from the company. And this is a little bit apocryphal, but rumor has it-- guess which person in a startup is the most likely to pilfer assets from the company? This doesn't work very well on the online platform here, but let me see if I can show you what this is.

Notes

Summary



13m 04s



- Shrinkage is when people steal from you, usually “insiders”
- In many cases it refers to **employees pilfering** physical products out of inventory
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- Guess which person in a startup is the most likely to pilfer assets from the company?

Launching new ventures

You see this? Oh, this won't work because of the lighting. And it's pre-recorded! But have a look in the mirror. In general, the person most likely to pilfer assets from the company is in fact the founder. The founder has access, especially in the initial stages, and the founder is actually touching the money of the company as it comes in, and therefore it's often thought that founders are highly likely to be the prime suspects when it comes to shrinkage.

Notes

Summary





- Depending on how much cash you have on hand and how much you carry around with you, **theft can place a heavy toll on your business**
- **Imagine TTOOC** (“time to out of cash”) when half your cash on hand is stolen!

Launching new ventures

So, theft; let's talk a little bit about theft, quickly. Depending on how much cash you have on hand, how much you carry around with you, theft can be a very important aspect in your cash management plans. So, imagine if you get robbed, and you're carrying around half the cash that you're expecting to use for the next *year*, and imagine what that does to your time to out of cash-- well, that cuts it in half. So, it's a very serious problem, and we're going to think about, for the next few minutes, how do you minimize handling so much cash? It's tempting, from the point of view of shrinkage-- it's also bad for security purposes for being robbed. And leaving it at home in giant piles-- may also not be optimal, because your home can also get robbed, or you may get robbed yourself when you're wandering back and forth carrying cash. So, in general, if there's a way around not carrying large amounts of cash with you, it's actually preferable, from lots of different points of view.

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14m 58s



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Launching new ventures

Okay, let's think about the burn rate. What can we do to get this burn rate down? Well, first things first, you need to make a plan. Make a plan simply means make a monthly and annual plan, with projections-- so, for the last year or so, how much have you actually spent? How much have you brought in? And make a calculation about what your actual monthly burn rate is, and then make a projection for the next one year into the future, how much you are planning on spending and how much you're expecting to receive. Then you can make the calculation about the time to out of cash. However, even beyond your net burn rate, think about your gross burn rate. When it comes time to make a major expenditure, ask yourself, "Do I really need this? Do I need to spend this money right now? You know, could I test and see if there's something else I could do? Could I wait a little bit longer, postpone it for a month or two, and think about whether I can live without this purchase?" So that's trying to avoid emotional purchases. You know, people who study shopping behavior and marketing know a lot about emotion that can be engaged when you make a purchase. It can make you feel really good.

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0m 24s



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It can make you feel less depressed or whatever, it can evoke emotions, and what you want to do as the entrepreneur managing your cash, you want to avoid emotional purchases and really think, "Okay, can I live without this? Can I delay this a little bit, and see what other quick fixes I could do instead of this?" Outsourcing when possible-- so, if it's some task, rather than hiring someone to do the task, maybe you can simply outsource the task to somebody and pay just on a task basis, as opposed to paying a salary basis. You don't want to bring on lots of extra expenses. Now, be careful. There's a note here about, when you outsource things, you obviously don't want to outsource things that can have competitive advantage for you. We'll talk about that more next week, but you don't want to outsource the one product developer that knows how to make what you want to do. There, you want to bring the person in and have the person work for you. On the other hand, if it's service that you need to take care of someone to mail packages for you, that's not something that's going to be very bad if it leaks out into the general public domain.

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0m 26s



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So, there, you might want to consider just hiring someone to, for example, mail packages for you or whatever it is. Cut your losses. Don't overextend. What does that mean? That means, when you've got your portfolio, you've got some ideas, you have someone ask you to extend your product, or you've got an idea for a little pivot or some other new thing, you don't want to keep all the losers lying around and keep spending money on them. So, make some decisions about cutting your losses so you don't keep spending money on things that will never pay for themselves. And, finally, as the founder, yes, you may have to cut your own salary. So, that's not very much fun, but, in fact, you may have to do it, before you cut anyone else's salary-- one, as a signal; two, to keep morale-- to save money. Plan your fundraising. So, there you make your projections, you want to have a look, and as we've mentioned before, you don't want to get into that "danger zone" of six months or less of time remaining before you run out of cash. So, you want to plan your fundraising accordingly, and start looking for money when you need it less, when you're not desperate for it. And, finally, obviously, try and bring in recurring revenue streams.

Notes

Summary



0m 28s



- **Make a monthly and annual plan** with projections
- **Watch your gross burn rate!**
 - Do you really need to spend this?
 - Can you wait a little longer / postpone?
 - Try and avoid emotional purchases
 - Outsource when possible (be careful, though)
 - Cut your losses, don't overextend
 - You may have to cut your own salary—ouch!
- **Plan your fundraising**
- Obviously, try and bring in **recurring revenue streams**

Launching new ventures

If you can get a subscription-type thing, where people are paying all the time, or your customers are paying-- if it doesn't have to be to the general public, it could be you have some company, B-to-B-type business, that are your customers, but they pay on a recurring basis as opposed to a one-time thing with a big sale cycle. That's obviously going to be better for you, for your cash flow, and it'll also be better for your cash management.

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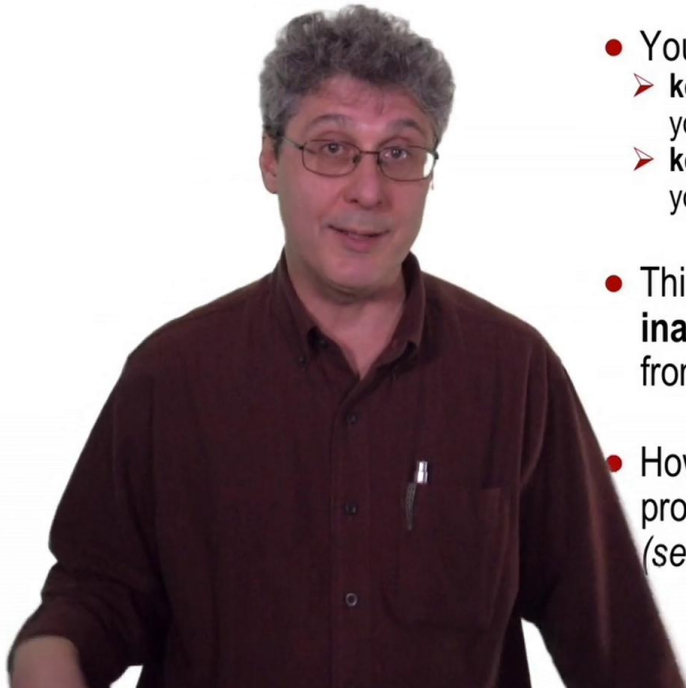
Okay, keeping your accounts separate. Now, you definitely want to do this. You don't have to have a bank account for this, but you want to keep your company cash separate from your personal cash, and if you have a bank account, then you want to keep your company bank account separate from your personal bank account. If you have a credit card, you want to keep your company credit card separate from your personal credit card. Because, you don't want to put yourself in the position to borrow money from your own company, you know? And the time will probably happen at some point where you might need some money, and then you might say, "Oh, well, I'm not so sure if this is-- yeah, it's okay, it's all my money anyway." It's kind of a slippery slope, after that, before you start spending a lot of the company's money. So, it's better to keep them separate, and then, if you're going to borrow money from your company, then you know you're doing it, and maybe you can write a note to yourself to pay yourself back with interest, but at least you're keeping all of your books and all of your assets separate, between your company and your personal financial plans.

Notes

Summary



0m 31s



- You should
 - keep your company **account** separate from your personal account, and
 - keep your company **cash** separate from your personal cash
- This will **prevent** you from inadvertently **“borrowing”** money from your company
- However, this will not necessarily protect you from other **legal liabilities** (see short digression next)

Launching new ventures

Now, I have to make a short digression here, because I noticed we haven't talked about this yet, up til now. Keeping these accounts separate is good practice. It's good to prevent shrinkage. However, it won't necessarily protect you from other legal liabilities, so you have to be careful here. I'm going to make a short digression, but-- remember that you probably, at some point-- if you think there's a liability issue, you should probably think about how that will play out with your own personal assets and your corporate form will play a large role in that. Let's talk about that for just a few seconds.

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22m 02s



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Okay, let's talk a bit about liability and corporate form. So, in most countries, there is going to be a distinction drawn between corporate forms that protect the owners from liability for what happens with the company, and those that do not protect the owner or owners. Okay, so, there are two main categories here. Now, these details differ from country to country, so it's important that you understand the rules in your own country. However, if you think about just generally speaking--two main categories. One is when you have your liability unlimited, and the other is when you have your liability limited. So, what does that mean? Liability is when you are held responsible for any action that your company takes. So, if you make a product that ends up injuring somebody, then you may be personally liable to pay some kind of damages to the person who was injured. If your company made someone-- thorough negligence, or whatever-- lose money, then you may be held personally liable to pay damages to that person. So, that's the liability angle here, and what we're going to do is, we're going to draw some distinctions.

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0m 34s



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The first two on this list are the ones where your liability is-- technically-- unlimited, or it's at least only limited by your own personal assets. Sole proprietorship is when you are in business for yourself, and your company is an extension of your own person. So, you're the only owner in a sole proprietorship, and anything that happens with that company is going back to you as an individual. Now, you can also have a partnership. Some partnerships have limited liability; some have unlimited liability. Many partnerships are unlimited in liability, where *all* the partners are jointly liable for any problems that occur with the partnership, but not all, so check the details. Then we have the so-called limited liability companies, people call them LLCs, and what that basically means is that the owners are shielded from any action the company takes. The company may have assets, and those assets are of course up for grabs in any legal action that might happen if the company causes damage to somebody. But, the owner's assets cannot be mixed with the company's assets in any kind of legal action. And, usually, most countries distinguish between sort of smaller LLCs and larger LLCs-- a smaller one meaning less than, you know, a certain number of shareholders.

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0m 36s



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20, 50, whatever. And the large ones having a large number of shareholders, which a lot of people call a public corporation. In such cases, the shareholders themselves are not held liable for the actions of the companies. What's the difference between these different forms? Well, the ones on the early part of this list here are easy to set up. They don't cost very much, if anything. Sole proprietorship costs almost nothing to set up. Whereas, a public corporation costs a lot-- not to mention the capitalization on it that you need just to form the corporation-- but there's a lot of ongoing expenses. Accounting expenses, legal expenses, etc. Sole proprietorship-- very easy, very cheap to set up, and a public corporation, super expensive to set up and run. On the other hand, it's a tradeoff, because the sole proprietorship has unlimited liability, and therefore you are going to be held responsible for the actions of your company, whereas with a public corporation, you are completely-- except in very specific situations which we don't have time to get into today-- you are *not* personally liable for the actions of your company. Speaking of which, I put my disclaimer on here-- I'm not offering you legal nor financial advice here.

Notes

Summary



0m 38s



- In most countries, there are **distinctions between corporate forms** with regard to **ownership** and **liability**
 - Sole proprietorship
 - Partnership
 - Limited liability company (private corporation)
 - Limited liability company (public corporation)
- These forms **trade off ease / low cost** against protection from liability

Disclaimer: We are not offering legal (or financial) advice here!

Launching new ventures

You have to check in your own country, what the rules are for liability and corporate form, which are can be changing, and regardless of what I say here, every country will have its own rules about legal liability, and you should familiarize yourself with those things, especially if you're creating a product or service that has the possibility of incurring damage on some party, whatever form that damage might take. So, I'm not telling you what to do, I'm just telling you what people think about when they're thinking about liability, and let's get back to bank accounts now.

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- Mobile money and electronic payments

Launching new ventures

Okay, practical matter; choosing a bank. It's important, if possible, to get some kind of banking or financial services when you own a company. So, one of the first things you may consider is actually getting a bank account, or some other kind of non-banking service, which we'll talk about next. So, if it's going to be a physical bank, let's think about the following things: What is the convenience of this bank? Where is the location relative to where you live, where your office is, etc.? Are there restrictions on the locations? Some banks, believe it or not, actually charge you a lot more if you don't go to the local branch in which you set up the account, in which case-- which may be fine for you, but you may want to do banking in multiple branches of the same bank, in which case you don't want to have those kinds of restrictions. Having a real contact person, in other words, not just a call center but someone who is a business customer service person at the bank, a real person whose name that you have, that you can interact with, is also a plus. And, how long it takes to set up an account, which can vary from a few minutes to a few months, depending on the bank, the country, etc.

Notes

Summary



0m 42s



- Are they **convenient**?
 - Location(s) and restrictions on banking
 - Having a real contact person
 - Time to set up account
- Do they offer **electronic banking services**?
- Clearing and other transaction **times**?
- **Total costs** for operating the account?

Launching new ventures

You definitely want to shop around a little bit, and try and get something that's convenient. Do they offer electronic banking services? We'll talk a little bit more about that next, but, I consider that to be a fairly important factor. In fact, to me, that's a super important factor. See if they offer electronic banking services. Find out about their clearing and other transaction times. So, in other words, if you-- if it's a check-based economy, then when you write a check, how long does it take for your check to clear? When someone writes you a check and you deposit it, how long does it take before they credit your account? Those kinds of transaction times are important. If there's a linked debit card, how long does it take for them to debit and credit for the debit card? And, what are the total costs to operating the account? Look and see-- check for the minimum balance fees, checking fees, interest, overdraft protection-- you name it, you want to look at your total costs for operating this account, and try and find one where the costs are relatively low.

Notes

Summary



29m 36s



Cash management problems

- Overspending
- "Shrinkage"
- Theft

Managing your burn rate

Keeping your accounts separate

Banking

- What to look for in a bank
- Corporate form (ease vs. liability)

Non-bank solutions

- Mobile money and electronic payments

Launching new ventures

Finally, let's talk a little bit about non-bank transactions, or electronic services, more generally speaking. This helps you avoid large cash transactions, so you don't have to walk around carrying a giant wad of cash to pay someone, or receive cash and then have to transport it. So, it's making theft a lot less likely, it's much more transparent, and while some people might think that's a bad thing because of taxes, etc., just take into consideration-- getting robbed *once* can be, first of all, physically dangerous, and second, a very expensive proposition, even if you're physically okay. Finally, it's faster and cheaper. So, overall, electronic transactions are just much better for most startup companies. Now, let's talk for a minute or two about the distinction between electronic banking versus electronic payments, mobile money, etc. etc. So, electronic banking, first of all, or "e-banking". That's just the front end of a real bank. In other words, it's an interface that they give you so that you can bank online, even from your phone. But the distinction there is that it's actually a real bank behind it, following some kind of rules for capitalization, there's often some kind of deposit insurance, etc.

Notes

Summary



0m 46s



Cash management problems

- Overspending
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Launching new ventures

So, there's banking with a front end on it, versus an electronic payment service-- people also call it an electronic money issuer or a cash handling organization-- so, in other words, these are kind of Paypal-esque type companies, where they usually will keep money for you, as part of the transaction, but you do not have to-- they don't pay interest on the money, for example, and they don't make loans on the money. So, it's not officially a bank, it's really-- in most countries-- it's really more of a money handling operation that happens to be electronic. Then there's also this third category, of some kind of mobile money or stored value, depending on what it is. This is where you, more or less, pre-pay for some service-- let's say a telecom service, and the telecom service would be for your mobile phone. I'm going to use minutes on my mobile phone. I'm going to pay a certain amount of money, and the mobile phone company will store the money for you in your account, and then you can use that money to pay someone else and receive money from someone else. This has opened up a whole new world in cashless transactions, and also opened up to non-bank customers.

Notes

Summary



0m 48s



Cash management problems

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Launching new ventures

Customers who wouldn't ordinarily have a bank account *or* a credit card, probably have a mobile phone. it doesn't have to be telecom services, it could be any kind of stored value, where this is possible. There are lots of different experiments going on worldwide right now, in many different stored value-type situations. But that's the basic premise behind mobile money, and then if you really want cash, you can go to some place, a physical place, where you can send a message to that party and that party gives you the cash right then and there. So, it can be converted to cash, but it can also stay as stored value and then be spent as you need it. So, one question you have to ask in a peer-to-peer situation like that though is where does the value reside? Is it on your phone, in your phone device-- if someone steals your phone, do they get all your money? Or is it in an account someplace in the cloud, where you need a certain PIN to activate it, and if you lose your phone you still get to keep all your money, you replace your phone and then you have access to your account. So, you have to ask yourself, when you're thinking these things through, where does the value reside?

Notes

Summary



0m 50s



- **Avoid dealing with large cash transactions!**
 - Theft less likely
 - More transparent (e.g., taxes) and/or worth it
 - Faster
 - Cheaper
- Distinction between **electronic banking** (front end) vs. **electronic payment** vs. **“mobile money”**
- **Is it peer-to-peer?**
 - If so, where does the value reside?
 - Is it insured?

Launching new ventures

Is it in a chip on the card, or is it in the cloud someplace? If it's in the cloud, then you have to have connectivity to be able to send and receive money. It also raises the question about insurance. In many countries, bank accounts are insured, which means if the bank goes out of business, the government promises to pay, usually, some maximum amount of all the depositors-- pay them back. And then the question you have to ask in a peer-to-peer system, is that money insured as well? If not, it's okay, but you probably don't want to put *everything* on a peer-to-peer stored-value-type exchange. So it's a few things to think about, here, but overall I would say the benefits of having electronic transactions far outweigh the disadvantages of electronic transactions.

Notes

Summary



34m 41s