Startup Strategies During Uncertain Times

AWS Startups Team
March 25, 2020
On the call

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Farm Hill

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Heartbeat

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HIRABL

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Sail
Compass
Who We Are

• Amazon Startups team

• Former startup founders

• These are our opinions, not AWS’s

• This presentation is not legal or tax advice; talk to your lawyers or accountants!
This is a difficult time.
The good news? You’re a startup founder.
The Mindset: Surviving This Thing

You are now a wartime CEO.

Business as usual will not cut it.

Your goal is to survive at least 12 months.

DO NOT RUN OUT OF CASH.
9 things founders should be doing right now
1. Create a new operating plan / cash forecast

• Re-forecast your P&L with high & low revenue scenarios

• If your runway is <6 months, put together weekly cash forecast

• Review weekly with your co-founders / team

• Know your bank balance at all times

• Know your “cash out” date
### P&L Summary

<table>
<thead>
<tr>
<th></th>
<th>Oct</th>
<th>Nov</th>
<th>Dec</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>$450,000</td>
<td>$450,000</td>
<td>$400,000</td>
</tr>
<tr>
<td>Gross Margin</td>
<td>24%</td>
<td>32%</td>
<td>28%</td>
</tr>
<tr>
<td>Gross Profit</td>
<td>$108,000</td>
<td>$144,000</td>
<td>$112,000</td>
</tr>
<tr>
<td>Expenses</td>
<td>$272,913</td>
<td>$215,811</td>
<td>$201,860</td>
</tr>
<tr>
<td>Net Income</td>
<td>($172,663)</td>
<td>($79,561)</td>
<td>($97,610)</td>
</tr>
</tbody>
</table>

### Personnel Costs

<table>
<thead>
<tr>
<th></th>
<th>Oct</th>
<th>Nov</th>
<th>Dec</th>
</tr>
</thead>
<tbody>
<tr>
<td>FTE</td>
<td>$133,603</td>
<td>$110,021</td>
<td>$110,021</td>
</tr>
<tr>
<td>Contractors</td>
<td>$</td>
<td>$4,500</td>
<td>$4,500</td>
</tr>
<tr>
<td>Total</td>
<td>$133,603</td>
<td>$114,521</td>
<td>$114,521</td>
</tr>
</tbody>
</table>

<p>| | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Headcount (FTE)</td>
<td>22</td>
<td>15</td>
<td>15</td>
</tr>
<tr>
<td>Headcount (1099's)</td>
<td>0</td>
<td>3</td>
<td>3</td>
</tr>
</tbody>
</table>

### Non-personnel Costs

<table>
<thead>
<tr>
<th></th>
<th>Oct</th>
<th>Nov</th>
<th>Dec</th>
</tr>
</thead>
<tbody>
<tr>
<td>G&amp;A</td>
<td>$139,310</td>
<td>$101,290</td>
<td>$87,339</td>
</tr>
<tr>
<td>Total</td>
<td>$139,310</td>
<td>$101,290</td>
<td>$87,339</td>
</tr>
</tbody>
</table>

<p>| | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash in bank 9/30</td>
<td>$</td>
<td>875,392</td>
<td></td>
</tr>
<tr>
<td>Cash-out date</td>
<td></td>
<td>31-Aug</td>
<td></td>
</tr>
</tbody>
</table>

Example
# Action plan

<table>
<thead>
<tr>
<th>Category</th>
<th>Item</th>
<th>Reason</th>
<th>Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fire bad customers</td>
<td>Raise minimum order to $50</td>
<td>Eliminate unprofitable deliveries</td>
<td>Reduce delivery cost to 15%</td>
</tr>
<tr>
<td>Fire bad customers</td>
<td>Discontinue SFO partnership</td>
<td>Low margin; Distraction from core business</td>
<td>Reduce distraction</td>
</tr>
<tr>
<td>Reduce overhead</td>
<td>Shut down Redwood City office ASAP</td>
<td>Office not required if team shrinks</td>
<td>Save $3,000/mo</td>
</tr>
<tr>
<td>Reduce overhead</td>
<td>Layoff: Employees A, B, C, D</td>
<td>Focus on sales, ops, back-end dev</td>
<td>Save $36,000/mo</td>
</tr>
<tr>
<td>Reduce overhead</td>
<td>Founder salaries cut in 1/2</td>
<td>Cash</td>
<td>Save $8,000/mo</td>
</tr>
<tr>
<td>Marketing</td>
<td>Eliminate ad budget</td>
<td>Outbound sales driving 95% of revenue</td>
<td>Save $10,000/mo</td>
</tr>
<tr>
<td>Sales</td>
<td>Focus sales efforts on whales ($8k+ MRR)</td>
<td>Whales move the needle on revenue fastest</td>
<td>Reduce # drivers required by 15%</td>
</tr>
<tr>
<td>Delivery Cost</td>
<td>Expand 1st delivery window by 15 min</td>
<td>Fit more deliveries onto each route</td>
<td></td>
</tr>
</tbody>
</table>
2. Take a hard look at your personnel costs

- Salaries are (unsurprisingly) a startup’s biggest expense

- Reduce founder salaries to bare minimum if not already

- Force rank employees and know your “minimum viable team”

- 3 options to reduce personnel costs: Salary reductions, furloughs, layoffs

- If pursuing salary reductions, consider stock option grants to offset
3. Discuss your plans with your investors

• Now’s the time to engage them!

• Share your high and low plans, and key actions you plan to take

• Index on transparency

• Test waters for bridge/insider-led round
4. Communicate changes to your team

Schedule 3 sets of meetings now:

- Tomorrow: 1:1’s with each employee
- In 7 days: 1:1’s with each employee to reset them
- Day 8: All Hands team meeting to refocus
5. Expense triage: find the expenses you can cut

• Print last month’s expenses, summed by vendor/payee – review line by line and decide where you can cut or reduce expenditure

• Reduce or eliminate variable expenses (marketing/ads)

• Cut unnecessary perks (and discuss with your team)

• Review all subscriptions and SaaS licenses. Ask yourself if you can get by without the service, or with fewer licenses.

• Lock down credit cards
6. Tighten AR and AP to improve cash cycle

• Get organized around receivables; customers may stop paying you if you don’t press them

• Offer discounts (5%) to customers for early payments

• Re-negotiate payment terms with vendors (e.g., Net 60 instead of Net 30), or deferred payments
7. Consider all sources of funding

- Fresh VC funding will be challenging
- Bridge or insider-led round → start planning ASAP
- Loans: Use them if you got them
- [SBA Economic Injury Disaster Loan Program](https://www.sba.gov/funding-technical-assistance/disaster-loans)
- Government research grants and funding (including [COVID-19 specific funds](https://www.cdc.gov/coronavirus/2019-ncov/about/medical-testing-research.html))
8. Talk to other founders

• You’re not the only one facing tough challenges

• Share ideas, vent, trade war stories

- Take care of yourself
- Bring your whole self to work (even if you’re working from home)
Remember: Speed matters.
The faster you make changes, the more time you buy.
Reasons to be hopeful

• Some of the best VC investments ever happened in 2009 (Uber, Airbnb)

• The nature of work may change forever

• New opportunities emerging (e.g., wfh tech)

• Chances to reconnect with friends, family by phone/video
Q&A

AWS Startup Team