Runway at the seed stage

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After closing a seed round some investors might encourage founders to spend aggressively such that the company has ~18 months of runway (meaning they are starting the Series A fundraising process in just a year!). Leaving little margin for error.

My perspective is a bit different. Paul Graham often tells startups that they should: act as if it's the last money they are ever going to get. I agree. But, you ask, how to behave when you don't have any meaningful revenue or customers? Give yourself ***at least*** 2½ years of runway after closing your seed round.

Two years before needing to fundraise, instead of one, can make all the difference developing, delivering, and iterating on a product people love enough to pay for.

A simple technique CEOs employ to hold themselves accountable to this 2½+ year plan is to ***upfront*** set a "burn cap". This isn't a burn target, but rather a maximum monthly net burn that results in at least 2½ years of runway.

This "simple" constraint obviously protects runway, but equally important, it preserves focus. Setting this upfront helps control the instinct to rationalize the cap upward later on. Keeping it simple helps minimize overthinking.

As MRR increases, this gives you a choice. Either increase gross burn in lockstep, maintaining the same net burn (earn to burn) or keep the same gross burn and focus on profitability.

A word of caution. For true product-market fit, MRR should be coming from the just-right customers all using the product for similar reasons. Be skeptical. If it's not, don't increase burn.

Setting the actual number for your burn cap isn't complicated. For pure technology seed-stage companies, gross burn is most influenced by the size of the team. That, along with the amount in the bank, largely determines the runway. And thus the burn cap.

The ideal pre-product-market fit team size tends to be 5–9 FTEs with the bulk being engineers (the proverbial two-pizza team). This seems to create the optimal balance of nimbleness and speed of execution at the seed stage (i.e. not starved for resources but also not taxed by organizational overhead). It's a team size that enables management through informal processes and osmosis. A team where everyone is on the same page and is of a frighteningly high caliber (the team one builds is the company one builds as it were).

A simple way to determine the burn cap is:

Raise (Cash in the bank)	$3,000,000	
Today's Date	March 9, 2020	
Average Salary	$135,000	Pre-product-market fit average salary across whole team $120-$150K
People	5	Pre-product-market fit ideal team size 5-9 FTEs
Total Monthly Salary	$ 56,250.00	
Taxes & Benefits	20%	
Total Monthly People Costs	$ 67,500.00	
Other Monthly Expenses (Rent, Marketing, AWS, ...)	$ 16,875.00	25% is a good rule of thumb
Total Monthly Burn (With $0 ARR)	$ 84,375.00	
Runway (months)	35	
Out of cash date	February 9, 2023	
Raise start (months)	28	
Start Fundraise No Later Than	July 9, 2022	

It's missing the hiring ramp at the beginning etc. but I've found it to be directionally correct.

In summary, keep the team super lean until it's being pulled by real customer traction. The gold standard for traction is cash in the door (from the just-right target customers who are all using the product for the same reason). Or moolah in da coolah as we like to say.

Anything prior to cash in the door we have to look at skeptically as a group and make sure we're really getting a clean signal from customers. 2–3 years is a smart planning period to maximize the number of "shots on goal" to find a product people love enough to pay for (or investors pound down the door proactively to fill da coolah ahead of that).

As PG says "The best solution is to not need money. The less you need investor money, (a) the more investors like you, ***in all markets***, and (b) the less you are harmed in bad markets. … if you've raised a lot, don't spend it; not only for the obvious reason you'll run out faster, but because it will turn you into the wrong sort of company to thrive in bad times".

If startups can avoid dying, they win.