

Action Business Planning – ABP: A Summary

This document presents a brief description of
Action Business Planning
and how to link it with
Formal Business Plans.

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Action Business Planning: Introduction

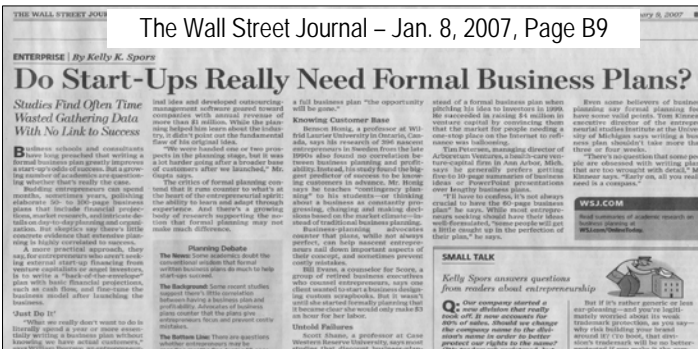
- This presentation introduces **Action Business Planning**, which is a migration from Formal business plans.
- Action Business Planning assists entrepreneurs in navigating the process of venture (new business) development beyond a series of sequential steps arranged in the linear format of Formal Business Plans.
- Action Business Planning and Formal business plans are **not** mutually exclusive.
- Interactive links between Action Business Planning and Formal business plans are beneficial to both. Action Business Planning helps Formal business plans to become more practical. Formal business plans help Action Business Planning to become part of the main stream procedures for business development.
- This presentation does **not** advocate that academic courses or business support programs should abandon Formal business plans; rather it calls for dynamic interactions between Formal and Action Business Plans.

Formal Business Plans: An Introduction to

- Formal Business Plan (FBP): A document that intends to demonstrate the feasibility of a new business (so it is also called "feasibility study").
- Academic courses—in business, engineering, law, etc.—teach students on how to write, read and interpret Formal business plans.
- A growing number of academics and practitioners are questioning the validity of Formal Business Plans.
- Many studies demonstrate that Formal Business Plans often act more ceremonial and protocol (code of behavior) than practical.

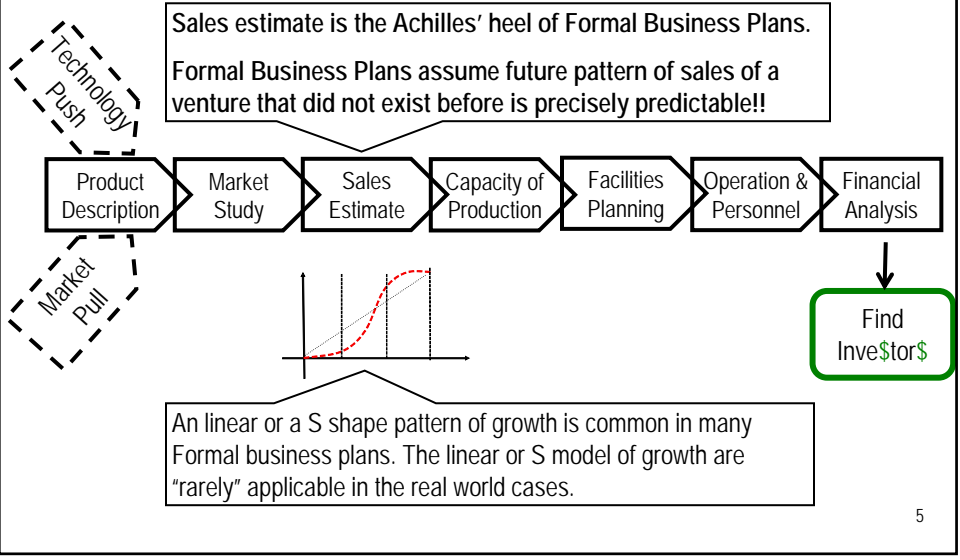
Do Start-Ups Really Need Formal Business Plans?

- A recent article of The Wall Street Journal asks "*Do Start-Ups Really Need Formal Business Plans?*"

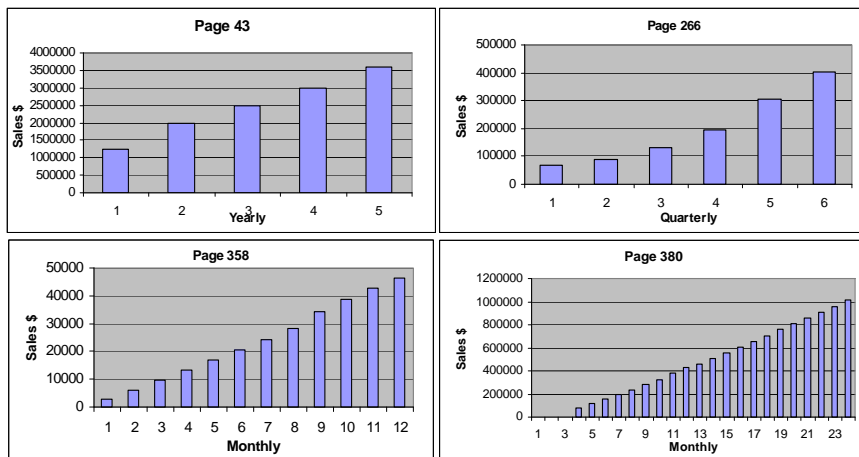


<http://startup.wsj.com/columnists/enterprise/20070110-spors.html>

Formal Business Plans -FBPs: A Linear Structure



Sales Estimates in a Business Text book: *New Venture Creation* (Timmons and Spinelli, 2004, 6th Edition)



The book consists of 5 cases. In 4 cases sales estimates are linear, compounded and predictable. The 5th case follows a path that is predictable and cyclic.

An Alternative Model: Categorization of Major Factors for Venture (New Business) Development

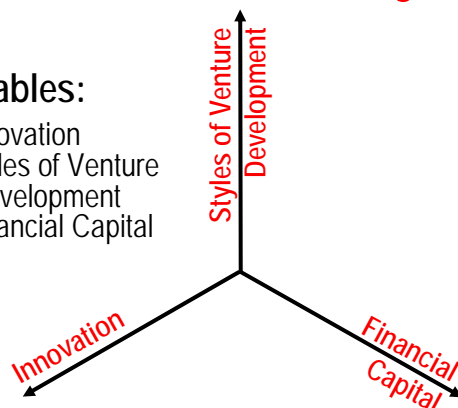
- There exist a wide range of factors that impact business (venture) development in a very complex manner.
- Factors that affect business development, however, can be categorized into three major groups:
 - **Variable Factors:** We know about and have some scope of control over the Variable Factors.
 - **Structural Factors:** We may know about, but have very limited control, if any, over the Structural Factors.
 - **Unknown Factors:** We do not know about unknowns, and often face them unexpectedly.

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Action Business Planning Variable Diagram

• Variables:

1. Innovation
2. Styles of Venture Development
3. Financial Capital



The three variables (Innovation, Styles of Venture Development and Financial Capital) are in three dimensions; this makes Action Business Planning non-linear. Action Business Planning also includes four structures that are not illustrated here.

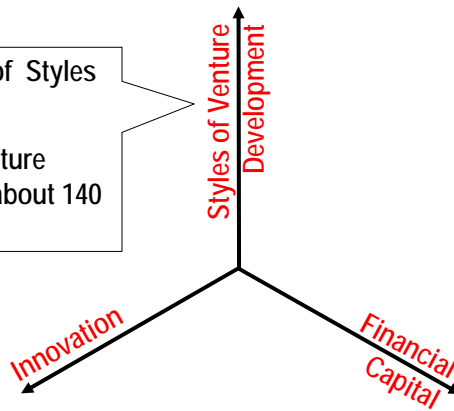
We can also imagine the three variables of Action Business Planning like a tripod, that makes a non-linear structure.

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Styles of Venture Development for ABP

Next section covers a brief review of Styles of Venture Development for ABP.

A complete review of Styles of Venture Development for ABP consists of about 140 slides!



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Cash-flow as a Surrogates for Development

- **Cash flow** is the difference between what you earn (revenue, sale) and your spend (cost). **Cash flow** is a better surrogate for **Development** than only sales or revenue as.
- Cash-flow may be both negative and positive, and being negative or positive cash flow makes a huge difference in business development.
- A business with continuous negative cash flow can not sustain.
- The S Model for Business Development uses Sales as a Surrogate for Development.
- Using Cash-flow as a surrogate for development, there are two threshold in the early stages of venture development: **Startup** and **Sustainable Cash-flow (Sustainable break-even point)**.
- A combination of cash-flow and sales provides new vistas in business development better than only sales or only cash flow.

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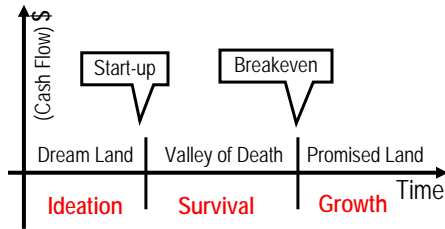
The Early Stages of Business (Venture) Development

New venture development is punctuated by two critical events: **Startup** and **Breakeven (Sustainable Cash-flow)**.

Cash flow is the difference between revenue (earning) and cost (spending).

Based on **cash-flow**, the early stages of venture development consists of:

- 1) **Ideation** (prior to Startup),
- 2) **Survival** (between Startup and Breakeven)
- 3) **Growth** (After Breakeven).



What is required at one stage is the equal and opposite of what may be required at the next stage in the company's development.

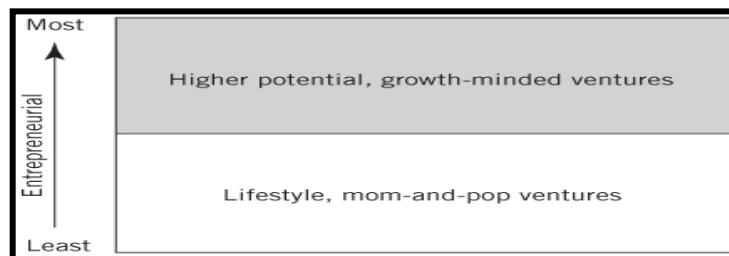
Geoffrey Moore

For more information, see the "Venture Development Model".

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High-Growth versus Lifestyle Businesses

Entrepreneurship textbooks and studies often classify new businesses (ventures) into two separate, binary (dichotomy) groups: **High-growth** versus **Lifestyle**.



Source: New Venture Creation (Timmons and Spindelli, 2007, 7th Edition), Page 259.

The emphasis of main stream entrepreneurship text books is often on the "high-growth ventures", and how to look for financial capital from external resources to initiate new high-growth ventures.

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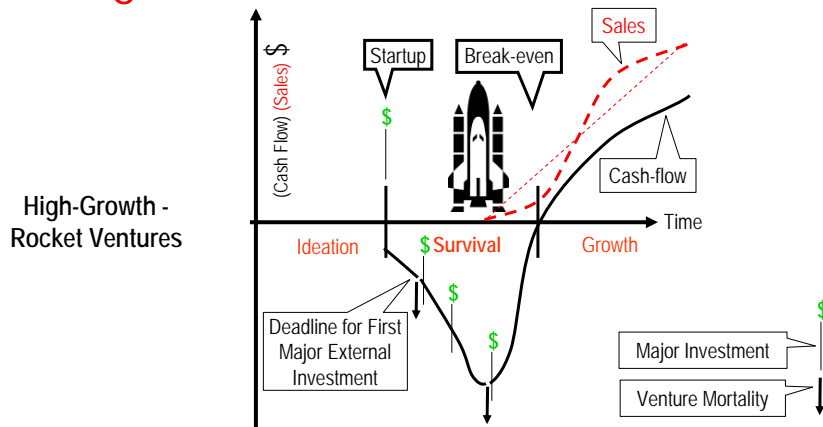
Styles of Venture Development

The Styles of Venture Development classifies new ventures during their Survival and Growth stages of business development into three inter-connected groups:

1. High-Growth – Rocket Ventures
2. Organic – Gazelle Ventures
3. Lifestyle – Turtle Ventures

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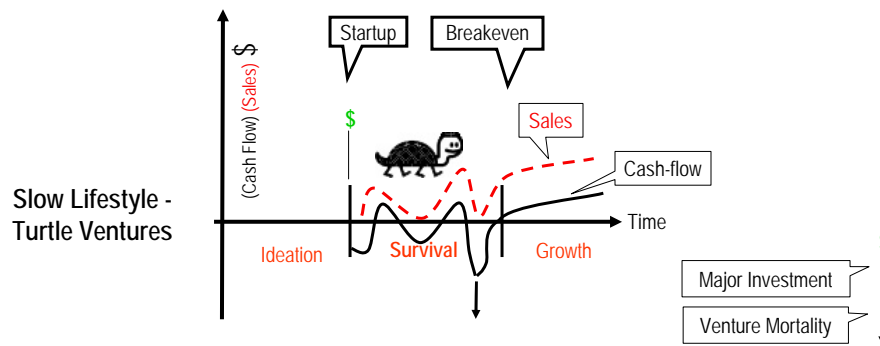
High-Growth - Rocket Ventures



High-Growth - Rocket ventures in the Survival stage create substantial debt burden to get the momentum to enable them to have high rate of expansion. Rocket ventures seek “all or nothing” and “high risk and high reward” strategies.

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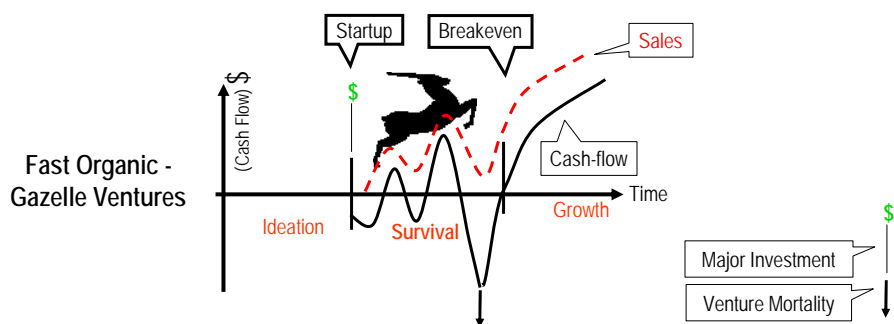
Lifestyle - Turtle Ventures



Lifestyle - Turtle ventures in the Survival stage follow slow cautious strategies that seek longevity. Lifestyle - Turtle ventures in the Growth stage intend to grow slow to become "Small Businesses"

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Organic - Gazelle Ventures



Organic - Gazelle ventures in the Survival stage seek resilience. In the Growth stage, Gazelle ventures intend to grow fast.

Organic - Gazelle ventures in their Survival stage behave similar (but not identical) to the Lifestyle - Turtle ventures, and in their growth stage behave similar (but not identical) to High-Growth – Rocket ventures.

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Business (Venture) Development Examples

- Lotus (VC-funded)

Lotus. software

- Compaq (VC-funded)

COMPAQ

- Federal Express

FedEx

- Microsoft (Self-funded)

Microsoft

- Dell (Self-funded)

DELL

- DHL (Self-funded)

DHL

- Wal-Mart (Self-funded)

WAL*MART

- NI (Self-funded)

NATIONAL INSTRUMENTS

- Digital (VC-funded)

digital



- Small Businesses, Doctors, Lawyers, Art Galleries,
Individual Shops, Individual Restaurants, Taxis, etc.

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Microsoft: A Gazelle Venture

In 1975 Microsoft [partnership] started out in Albuquerque, New Mexico. MITS (located in Albuquerque) was the first company to sell an inexpensive personal computer to the general public. In return for the software, MITS gave Microsoft royalties and office space during the first year. But after MITS was acquired by another company, it stopped paying. **We had no income for a year and were basically broke. ...** After that episode, Microsoft has been perpetually cash-flow positive. In fact, I developed a rule: We always have to have enough cash on hand to be able to run the company for at least a year even if no one pays us. The MITS experience, suddenly having no income, made me conservative financially, a trait that persists to this day.

The Road Ahead, Page 44 (Bill Gates, 1996)

In 2004, Microsoft had more than \$ 63,000,000,000 cash in reserve. It still has no corporate jet, and Gates flies coach and business class.

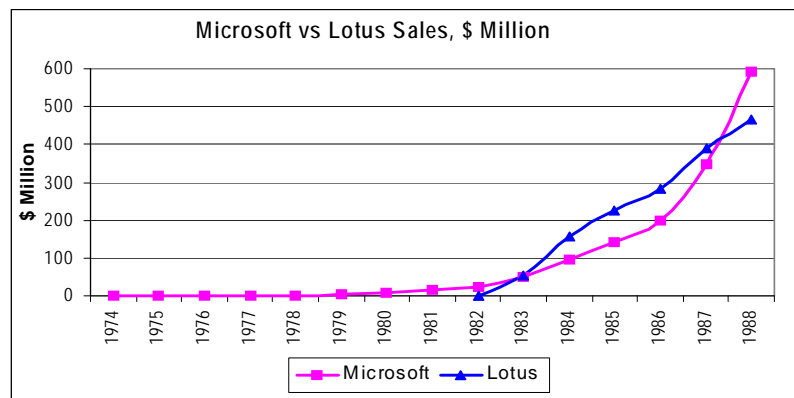
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Lotus Software: A Rocket Venture

- Prior to Lotus Software, Mitch Kapor was a product manager for Visicalc and he had successfully developed Tiny Troll, and VisiPlot software.
- In 1981 Mitch Kapor developed a business plan and made a significant personal investment to fund the early development of Lotus's software.
- In 1982 Mitch Kapor and Jonathan Sachs with backing from Ben Rosen obtained about \$4.7 Million VC funding and established Lotus Development Corporation.
- In January 1983 Lotus released Spreadsheet Lotus 1-2-3.
- Lotus sales in the first year (1983) was \$M 53 more than Microsoft which was then more than 10 years old.
- In October 1987 Lotus went public.

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Microsoft vs. Lotus Sales, \$ Million



This diagram compares the patterns of development of two software ventures: Microsoft versus Lotus: In 1984, two years old Lotus (a High-growth Rocket venture) had sales more than 12 years old Microsoft (a Gazelle venture). But soon after Microsoft surpassed Lotus.

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Compaq: A Rocket Venture

- In August 1981 IBM successfully entered the Personal Computer (PC) industry.
- In February 1982 Compaq was formed by three former Texas Instruments (TI) senior managers to make IBM PC Compatible computers.
- In 1982 and 1983 Compaq received \$60 million in venture capital.
- Compaq spent more than \$1 million to reverse engineer the BIOS (Basic Input/Output System) chip for the IBM PC.
- Compaq developed a sophisticated management, sales and manufacturing system from the beginning.
- Within a year of operation Compaq established a network of 1000 dealers.
- In its first year of operation (1983) Compaq sold more than \$100 million and had net income of \$5 million.
- In December 1983 Compaq made its first public offering and raised \$67 million.

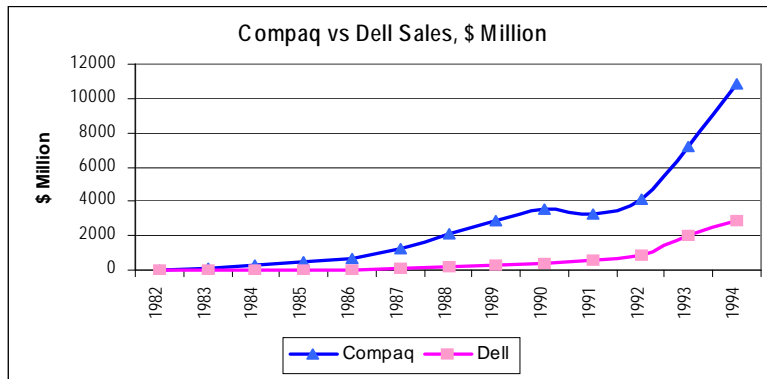
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Dell: A Gazelle Venture

- In 1983 Michael Dell (18 years old) moved to Austin to become a pre-med freshman student at UT-Austin.
- Prior to college, Dell has tried two personal ventures: 1) Selling mail stamps by mail-order and 2) selling news paper subscription.
- In 1983 Dell sold PC parts and upgrades from his dorm, annual estimated sales about \$100,000 (compared with Compaq sales of \$100 Million in 1983).
- In May 1984, Dell applied for one semester leave of absence from UT-Austin, established *PC Limited* as a mail-order business to sell IBM PCs upgrades. Sales estimated around \$ 1 Million.
- In 1985 Dell produced (in China) the first computer of its own design. Sales estimated around \$ 6 Million.
- In 1986 sales reached to about \$ 70 Million.
- In 1988 PC Limited renamed Dell Computer Corporation.
- In 1999, Dell reached \$25 billion in sales and overtook Compaq.

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Compaq vs. Dell Sales, \$ Million



This diagram compares the patterns of development of two PC makers, Compaq versus Dell. Nine years after their inception, in 1990, sales of Compaq (a High-growth Rocket venture) was about 10 times more than Dell (a Gazelle venture). But later Dell surpassed Compaq.

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Gazelle versus Rocket Approaches for Venture Development

• Gazelle Approach for New Venture Development:

- Stay in the business as long as it takes.
- Keep going and you will get there, if you can survive.
- As long as you don't lose the game, you will win it.
- What does not kill you, makes you stronger.
- Other name: "Under the Radar Strategy", "Marathon".



• Rocket Approach for New Venture Development :

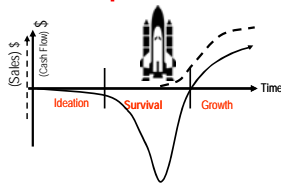
- Grow very fast to reach IPO, liquidity,
- Other names: "Get Big Fast", "Home Run", "Aggressive Growth", "All or Nothing", "Gold Rush" and "Race".



Gazelle and Rocket approaches are like a spectrum rather than dichotomies.

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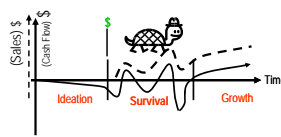
% of New Ventures and % of New Jobs for Independent Ventures: Some Estimations



Rocket ventures make about 0.2% of new ventures and they create about 20% of jobs in the new ventures. Rockets need extensive amount of initial financial capital to start with and they potentially can grow very fast.



Gazelle ventures make about 3% of new ventures and they create about 60% of jobs in the new ventures. Gazelles need modest amount of financial capital to start with, but they potentially can grow fast.



Turtle ventures make majority (90%+) of new ventures and they create about 20% of jobs in the new ventures. Turtles need limited amount of financial capital to start with, but they grow slowly.

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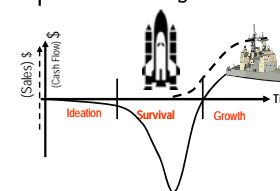
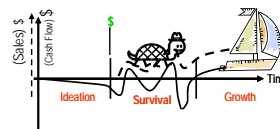
Migration from Survival to Growth Stage

Turtle venture in the growth stage will become lifestyle venture, represented by **Sail Boats**.

Gazelle and Rocket ventures in the Growth stage will become large enterprise, represented by **Cruiser Ships**.

Gazelles in the Survival stage resemble Turtles. In the Survival stage, it may be difficult to recognize Gazelles from Turtles.

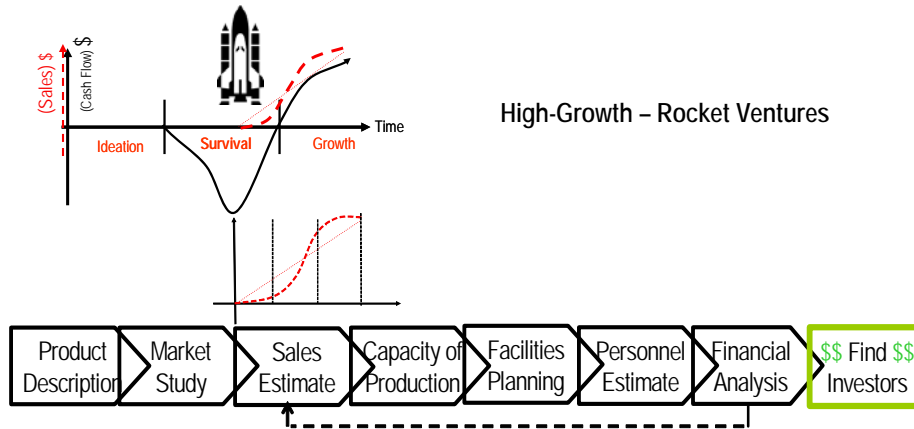
When Gazelles are in the Growth stage, it is difficult for Rockets to beat Gazelle ventures.



Note the development characteristics of Gazelle ventures, compared with Turtle and Rocket ventures.

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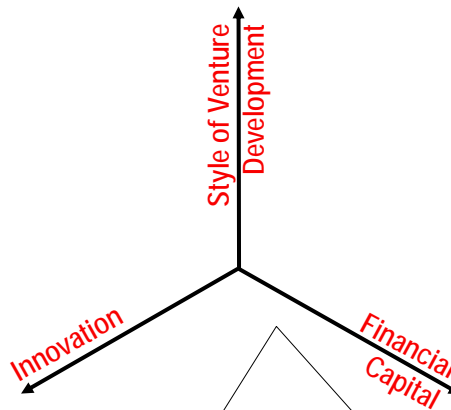
Formal Business Plans and Rocket Ventures



Successful High-Growth ventures may make about 400 PPM of total ventures!

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Financial Capital for ABP



Next section covers a brief review of the Financial Capital facet of ABP. A complete review of Financial Capital for ABP consists of about 130 slides!

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Financial Capital to Start a New Venture

Having access to sufficient amount of financial capital is essential for venture development, because before passing the threshold of break-even, new ventures rely on the financial resources of the founders.

In theory, the minimum amount of required financial capital to start a new business (venture) is equal to the total (cumulative) cash-flow between startup and break-even point. A long and deep Survival Stage (Valley of Death) needs more financial capital, than a short and shallow Survival Stage.

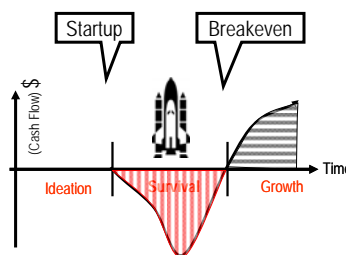
According, the selected style of venture development deeply impacts the required amount of financial capital to set up a new venture, to be able to pass the Survival stage (the Valley of Death), pass the break-even threshold and enter the Growth stage (the Promised Land).

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Financial Capital to Start a Rocket Venture

- In the case of High-growth - Rocket ventures the minimum required amount of financial capital is equal to the area of the simple cash-flow diagram between "startup" and "break-even point." This is also called accumulated cash flow.

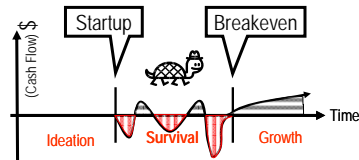
- A long and deep survival stage needs more financial capital than a short and shallow survival stage.



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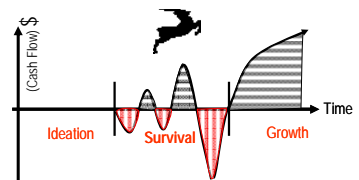
Financial Capital to Start a Turtle or a Rocket Venture

- In the case of Turtle and Gazelle ventures the areas of negative cash-flow and positive cash-flow between “startup” and “breakeven” should be taken into consideration.



- A fast path to the start of sales helps Turtle and Gazelle ventures to improve their cash flow patterns.

- Gazelle ventures may start with modest amount of financial capital, but if they are successful they can grow fast in the Growth stage.



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Financial Capital Resources

- The sources of financial capital are classified under four inter-related topics, 1) Personal Resources, 2) Loan and Credit, 3) Equity and Investment, and 4) Government and Philanthropic Resources.
- The sources of capital are not mutually exclusive. For example some banks provide both business loans and venture capital. Some government agencies provides both loan and grant.
- Each Style of Venture Development often is linked with distinct sources of capital. In case of independent new ventures, a High-growth Rocket mode needs extensive financial backing, often from external resources like venture capital firms.

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Financial Capital Resources

1. Personal Resources of Entrepreneurs

Personal Savings and Lines of Credit
 Personal Retirement Plans
 Family & Friends Resources

2. Debt (Loan/Credit)

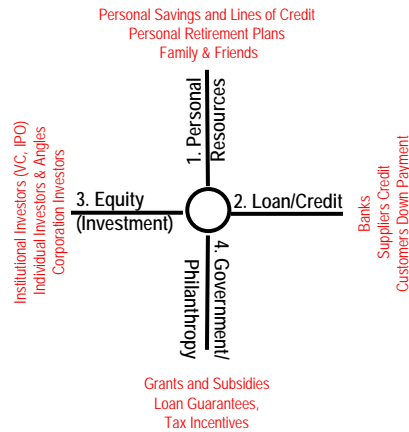
Banks Loans
 Suppliers Credits
 Customers Down-Payments

3. Equity (Investment)

Institutional Investors (VC, IPO)
 Individual Investors (Angels)
 Corporation Investors

4. Government and Philanthropy Resources

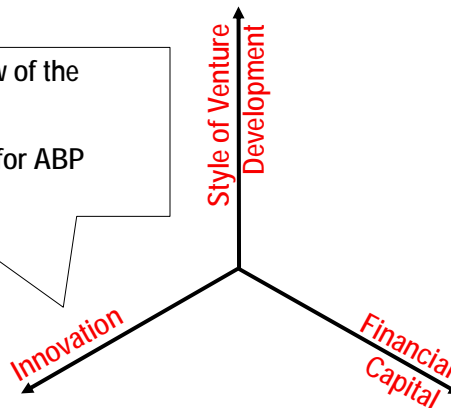
Grants and Subsidies
 Loan Guarantees
 Tax Incentives



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Innovation for ABP

Next section covers a brief review of the Innovation facet of ABP.
 A complete review of Innovation for ABP consists of more than 140 slides!



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Innovation: A Non-Linear Configuration

Major enterprise activities are categorized into 4 main groups:

1. **How to Make:** Technology
2. **How to Sell:** Customer/Market
3. **How to Recruit and Retain Employees:** Human Resources
4. **How to Integrate Altogether:** Organization

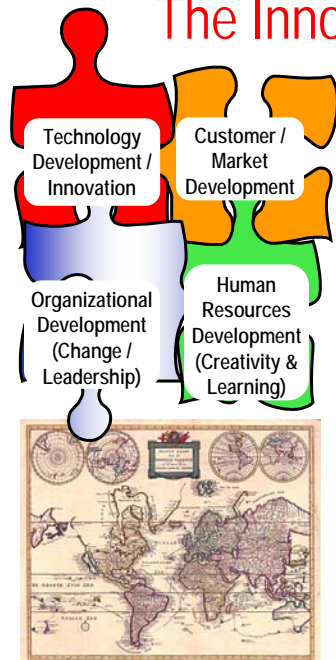
Development and innovation happen in all aspects of enterprise activities.

1. **Technology Development / Innovation**
2. **Customer & Market Development**
3. **Human Resources Development (learning and creativity)**
4. **Organizational Development (change and leadership)**

Innovation and development are not limited to technology.

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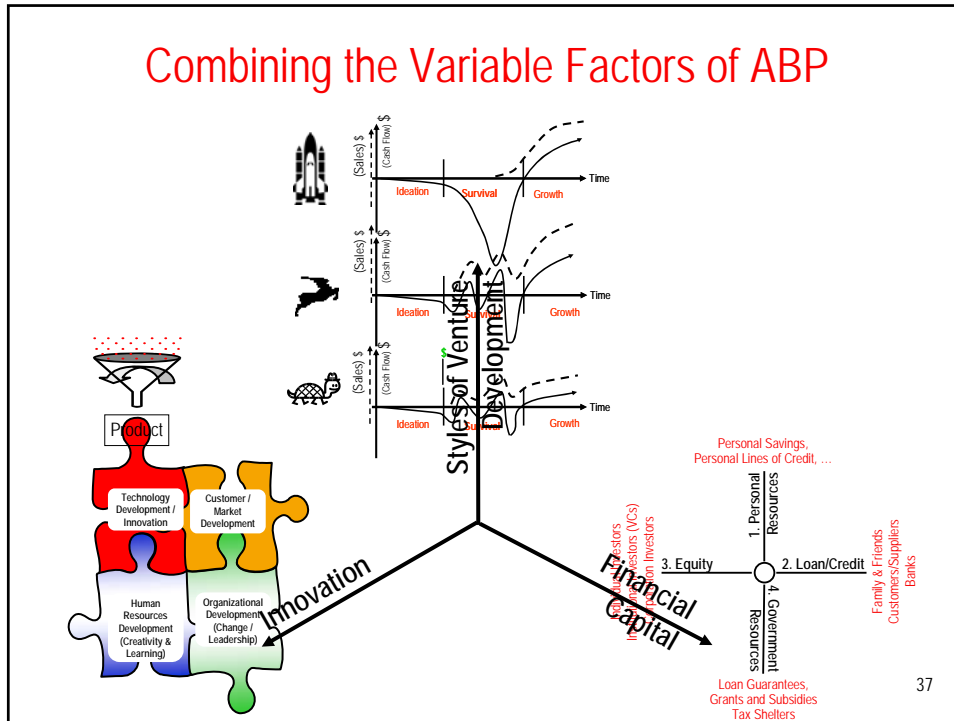
The Innovation Map Model



- The four aspects of innovation have nonlinear relationship with each other. They are distinct; though they are linked. Organizational development often plays the role of linking those to each other.
- Technology often holds the most visible aspect of innovation and development. Technology, however, is not necessarily always the most important aspect of innovation. Examples: Dell, Southwest Airlines, Wal-Mart, Virgin Group.
- The four aspects of innovation are analogous to the continents of the World

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Combining the Variable Factors of ABP



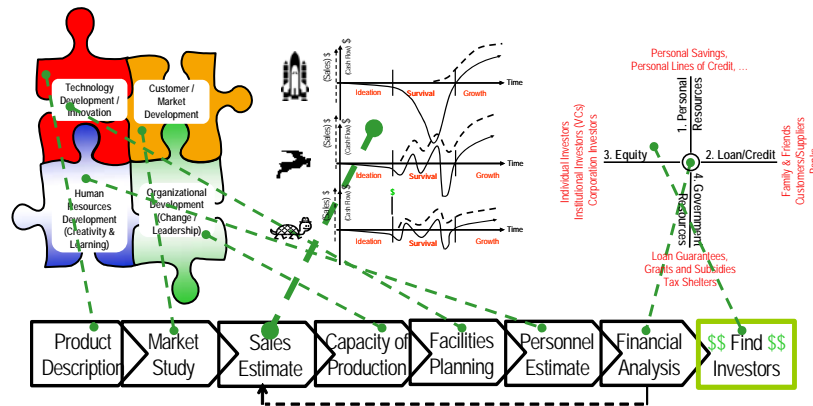
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Linking Action Business Planning and Formal Business Plans

- Entrepreneurs may need to link their Action Plans and Formal plans, in case they plan to apply for business loans from banks, or seek financial support from professional investors (VCs and Angels) or government agencies,.
- Next diagram demonstrates the main links between Action Business Planning and Formal Business Plans.
- Making a Formal business from an Action Plan is like AAA Trip-Tik® maps, they are a set of Roadmaps for specific routes, selected among many alternatives that Area Maps suggest.

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Linking Action Business Planning and Formal Business Plans



Further links between Action and Formal Business Plans are discussed under Four Scenarios for the Survival Stage.

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Audiences of Formal Business Plans

1. Commercial Banks
2. Institutional Investors (Venture Capitalists – VCs, Investment Bankers)
3. Corporate Investors
4. Angel Investors
5. Government Agencies/Philanthropic Organizations
6. Others

Each group needs a unique form of formal business plan.

* Commercial banks look for collaterals and emphasize on continuity of the business.

* Institutional Investors look for clear exist strategies, in say 3 to 5 years.

* Corporate investors may be more interested in how the new venture helps them to sell their products (case of Starbucks) or later become part of the corporations (case of Xerox investments).

* Angel investors may act like mini-VCs, or long term active business partners.

* Government agencies may be more interested in job creation than profit.⁴⁰