

Action Business Planning: A Brief Description

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This document covers a brief description of Action Business Planning, which is a new platform for planning and devising new ventures and business entities. 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.

A Formal Business Plan is often considered the first step in setting up new ventures or growing existing businesses. The conventional wisdom embedded in most formal business plans is the assumption that new businesses should be planned in detail prior to their startup and that those details will serve as an important step toward success. Many studies, however, indicates there is little concrete evidence that formal business planning leads to business success. Amar Bhide in “How Entrepreneurs Craft Strategies¹” found that 41% of Inc. magazine's 1989 list of the 500 fastest-growing private firms didn't have formal business plans and 26% had only rudimentary plans. A recent survey in *Inc. Magazine* published in June 2005 showed a similar pattern. In response to “Did you have a business plan when you started your company?” only 52% responded, “Yes.” Other studies have demonstrated that initial formal business plans are not a prerequisite for subsequent business success. Many successful corporations, such as Intel and

Microsoft to Dell and Wal-Mart, did not devise initial formal business plans prior to their inception. There are studies that argue formal business plans often act like a communication protocol in formal procedures to apply for a loan or external investments (Mahdjoubi, 2004²).

Formal Business Plans Main Model

The process of developing Formal Business Plans, as Figure 1 depicts, commonly starts with “product description” and proceeds with a series of sequential stages such as “market study,” “sales estimate,” “capacity of production,” “facilities planning,” “personnel estimate,” and “financial analysis.” Formal business plans follow linear paths, sometimes with linear feedback from financial analysis to sales estimates. Real-life ventures, however, are rarely linear, and they always face unknown and unpredictable events. Formal business plans culminate with the estimation of the total amount of financial capital needed to accomplish the venture’s goals, usually from external sources such as venture capital investors and banks.

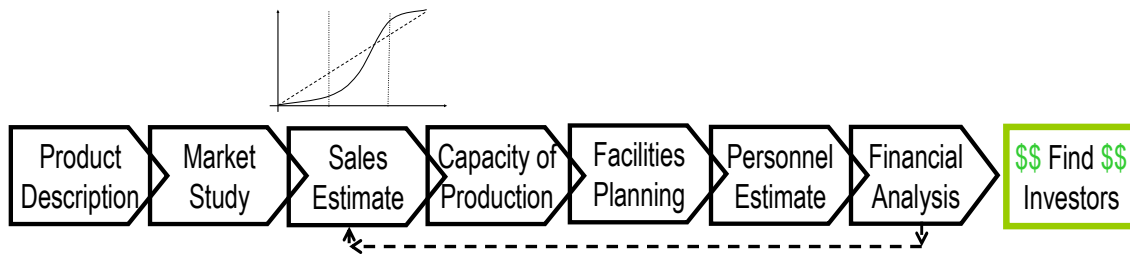


Figure 1: A Typical Structure of Formal Business Plans

A major shortcoming of Formal business plans is that they assume the patterns and amount of sales for a new venture that did not exist before are precisely predictable, often in the smooth shape of an S model or a linear path. See Figure 1. An accurate forecast for sales and revenue is a cornerstone of Formal Business Plans, because financial analyses are based on accurate amount of revenue over a long period of time, yet an accurate prediction of sales of a new venture without past background, and especially in the case of a new product, is an arduous, if not unattainable, task. **Sales estimates are often the Achilles’ heel of Formal Business Plans.**

Formal Business Plans often present the process of business development in sequential fashion, from Startup to Growth to Maturity, with smooth transitions from one stage to the next, the

familiar S model of business development. More recent studies have identified non-linear patterns of business development due to innovation and entrepreneurship. Many business plans, especially in academic exercises, often depict the patterns of sales of new ventures as having a compounded rate of growth, say 10% to 20%, which makes the growth of sales and revenue like a linear increasing path. In such cases, a new venture assumes to reach a high level of sales shortly after start-up and then continues to grow year after year with a predetermined rate of growth to satisfy the expectations of speculative investors. *New Venture Creation* (Timmons and Spinelli, 2004, 6th Edition) is a widely used business text book and it contains five case examples. Figure 2 shows the patterns of sales for four cases in *New Venture Creation*. In the cases sales estimates are linear, compounded and predictable. The 5th case follows a path that is predictable and cyclic.

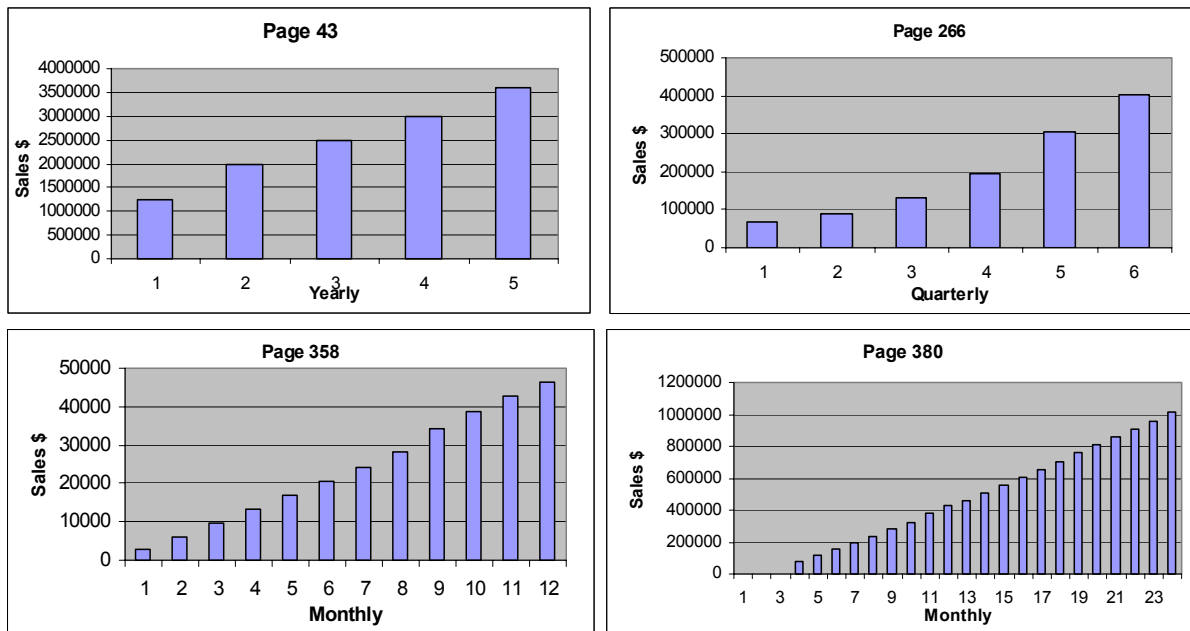
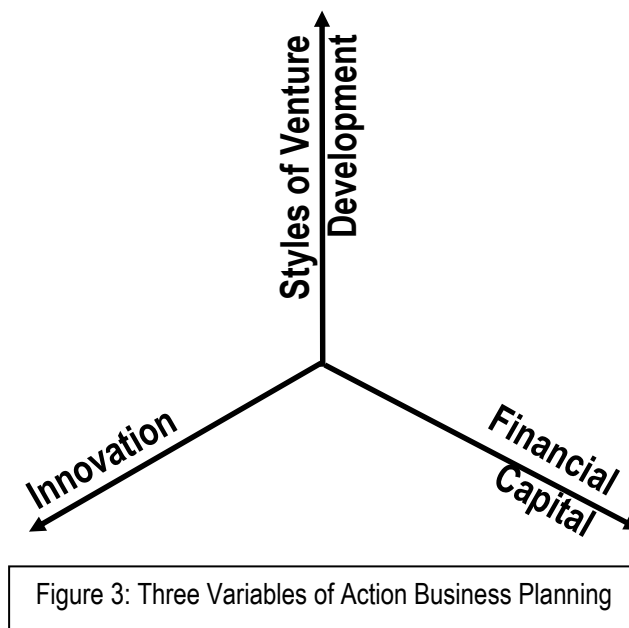


Figure 2: Sales Estimates in a Business Text book

Numerous resources exist for writing formal business plans, varying from “how to” books to entire academic courses. But such Formal Business Plans may not incorporate real-world challenges that entrepreneurs face when they actuate their ventures. Formal Business Plans, indeed, do not provide entrepreneurs with the competitive edge they need.

Action Business Planning Main Model

Venture development involves the complex interaction of numerous resources and factors. We can, however, categorize factors impacting new venture development in two major groups: *Variable* and *Structural*. Variable factors are those over which entrepreneurs have some control. Structural factors are those that entrepreneurs must address, but over which they have limited control, such as government rules and industrial norms (both explicit and implicit). Entrepreneurs need to articulate their understanding and recognition of unique variable and structural factors that are applicable to their venture and the diverse interactions among them.



Variable factors may be classified further into three facets: **Innovation**, **Styles of Venture Development**, (relevant to each stage of the business lifecycle), and **Financial Capital**. The three variable facets of Action Business Planning interact with each other like three dimensions. See Figure 3. Entrepreneurs not only need to articulate each variable facet individually; they also must take into consideration the interactions that variable facets have with each other.

Using the analogy of exploration (adventuring) to articulate the process of entrepreneurship (venturing - venture development), initial capital is like food and fuel, styles of venture development are like modes of transportation, and innovation is like a map that allows new

ventures to proceed toward the next stage of business lifecycle. In this context, a Formal Business Plan often acts like roadmaps, which are linear, simple to measure, and easily communicated, but with limited alternatives. Action Business Planning is like area maps, which are non-linear and difficult to measure, but offer almost unlimited alternatives.

Entrepreneurship and new venture development, by their nature, follow non-linear processes, as does Action Business Planning. Entrepreneurs, however, may need to link their non-linear action plans with linear formal plans when applying for business loans from banks or seeking financial support from professional investors such as venture capitalists. Making a Formal Business Plan from Action Business Planning is like making a Trip-Tik map (by the American Automobile Association - AAA), a linear roadmaps for a specific route form many alternatives that area maps suggest.

The Styles of Venture Development

A key feature of Action Business Planning is the introduction of the “Styles of Venture Development”, which acts like a new dimension to conventional format of technology and financial capital. “Styles of Venture Development” is about the alternative processes that new ventures or new projects (inside an existing enterprise) go through in each stage of their business lifecycle.

New venture development is punctuated by two critical events: **Startup** and **Breakeven**. The breakeven point is achieved if and when the new venture generates revenues equal to accrued total costs, and the new venture has the capability to gain positive cash-flow afterward. We use cash-flow as a gauge for development, and define and classify the early stages of the business lifecycle into three distinct stages: **Ideation**, **Survival**, and **Growth**. Ideation occurs before the commencement of Startup, when the generation of new ideas is the main concern of the entrepreneurs. Survival (also called the Valley of Death) occurs after Startup and before Breakeven, while cash-flow is negative and the new venture is trying to stay afloat. Growth happens after the new venture passes breakeven and has a positive cash-flow. Figure 3 depicts the proposed model for the early stages of venture (new business) development.

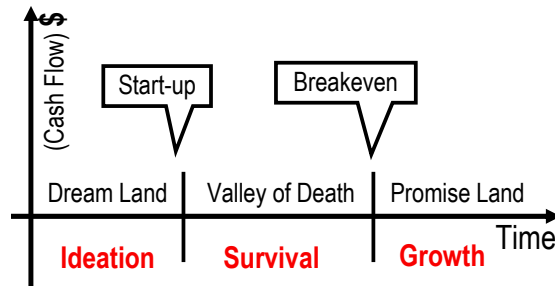


Figure 3: Early Stages of Venture (New Business) Development

Based on existing studies new ventures are usually classified into two separate – almost dichotomous – groups: **High-growth** versus **Lifestyle**³. High-growth ventures (also called High-potential ventures) are described as the ventures which have the potential to grow extremely fast, generate extensive yearly sales and revenues, and employ a significant number of individuals. High-growth ventures attract attention of professional investors and numerous academic studies as a primary source of new jobs. A Lifestyle venture (also called Mom-and-Pop) is described as a business that does not intend to grow extensively and whose goal is to provide a good living for the entrepreneurs involved. This study expands the above classification and suggests a more nuanced typology to explain the process of business development. This study proposes three Styles of Venture Development in the Survival and Growth stages: **High-Growth Ventures**, **Organic Ventures**, and **Lifestyle Ventures**.

High-Growth ventures, also called Rocket ventures, during the Survival stage risk a substantial debt burden prior to breakeven. High-Growth – Rocket ventures are revenue calibrated in the sense that they grow extensively, if fuelled with extensive financial capital. The ultimate goal of High Growth - Rockets ventures normally is a fast exit strategy that leads to liquidity for the founders and investors, usually in the form of an Initial Public Offering (IPO) or acquisition by another company. Compaq and Lotus exemplify High-growth - Rocket ventures. Based on the estimates of the Statistics of U.S. Businesses (SUSB) program each year as many as 600,000 new ventures are born⁴. Approximately 0.2% to 0.3% of new ventures (about 2,000) follow a High-growth – Rocket mode.

In the context of the proposed classification for new business (venture) development, Figure 2 depicts the ideal type of cash-flow and sales for High-growth – Rocket ventures. The cash-flow of High-growth ventures is a deep V-shaped diagram during the Survival stage and may lead to a growing pattern in the Growth stage. This configuration has often been used as a default pattern of venture development in the many management text books. The pattern of sales for High-growth ventures is often depicted as an S shape model (also called hockey stick model) that starts in the middle of the Survival stage, when the cash flow drain is the highest. In the formal business plans the S model of sales often is further simplified in a linear path of growth that facilitates the calculations of financial analyses. The structure of Formal business plans have been developed based on the premises of High-growth ventures.

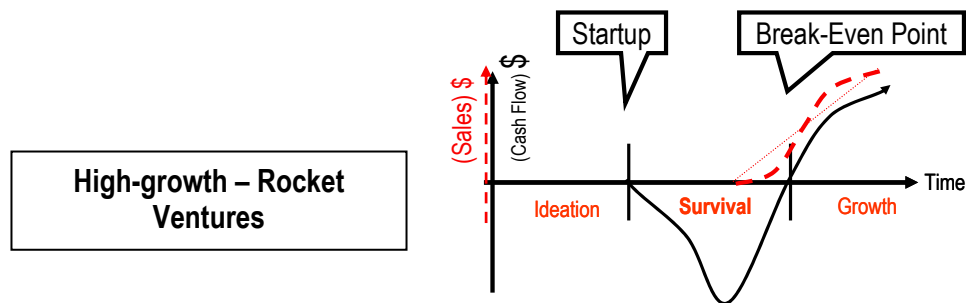


Figure 4: Ideal Types of Cash-flow and Sales in High-growth – Rocket Ventures

Lifestyle ventures, also called Turtle ventures, in the Survival stage follow slow cautious strategies that seek longevity. In the Growth stage they grow slowly to become “Small Businesses.” In terms of our ideal typologies, Figure 5 depicts the ideal type of cash-flow and sales for Lifestyle – Turtle ventures. Lifestyle -Turtle ventures and High-growth differ in their patterns of development (based on sales and employment) in both stages of Survival and Growth. As an ideal type, the pattern of cash flow in the Lifestyle - Turtle ventures includes many ups and downs during the Survival stage and a steady path during the Growth stage. The patterns of sales for Lifestyle – Turtle ventures also follows the ups and downs of cash flow, but Lifestyle-Turtle ventures intends to sell in the very early phases of the Survival stage.

Lifestyle ventures are founded by entrepreneurs motivated to set up new ventures and reach breakeven with a minimum of debt and risk. Their business goals are modest, and the growth-

rate is slow, and sweat-equity as a primary source of capital, is common. In comparison to High-growth ventures Lifestyle – Turtle ventures are financially conservative. Founders of Lifestyle ventures try to move along the different stages of business development with their own financial resources. Many founders of the Lifestyle ventures never intend to achieve large growth and prefer their companies to remain modest. The majority of new ventures (estimated at more than 90% of 600,000 new ventures each year) pursue a Lifestyle – Turtle mode, but their contribution to the macro-economy is minimal

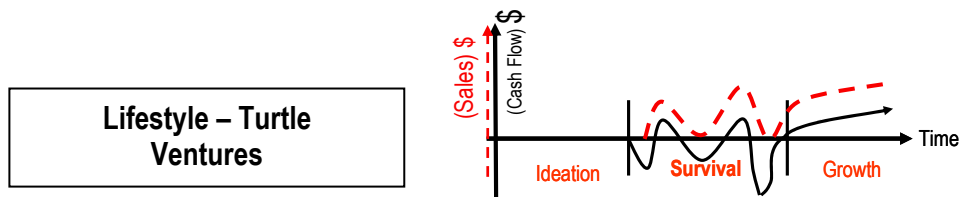


Figure 5: Ideal Types of Cash-flow and Sales in Lifestyle – Turtle Ventures

Lifestyle ventures, as they are defined, often are founded by entrepreneurs motivated to set up new ventures and reach breakeven with a minimum of debt and risk. In comparison to High-growth ventures Lifestyle – Turtle ventures are financially conservative. Founders of Lifestyle ventures often try to move along the different stages of business development with their own financial resources. Small businesses - with less than 20 employees - make the majority of businesses, but their contribution to the macro-economy is minimal. Statistics of U.S. Businesses (U.S. Census Bureau) indicate that firms with less than 20 employees comprise of about 90% of all firms in the U.S., but they employ about 18% of all jobs and pay %15 of total payroll⁵.

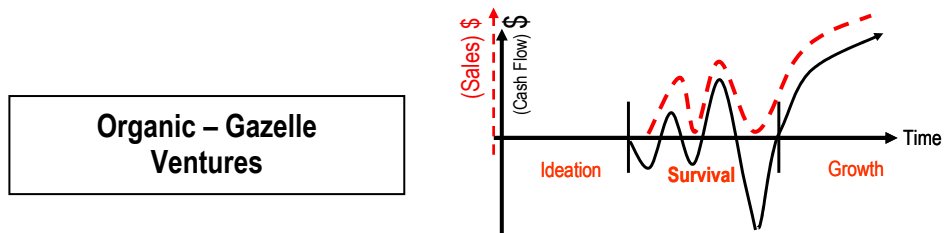


Figure 6: Ideal Types of Cash-flow and Sales in Organic – Gazelle Ventures

We classify the third group of new ventures as **Organic** ventures – or Gazelle ventures, which hold a position between the Lifestyle and High-growth ventures. In their Survival stage, Organic

– Gazelle ventures behave similarly (but not identically) to the Lifestyle - Turtle ventures, their cash flow and sales follow ups and downs. Organic – Gazelle ventures in their growth stage, behave similarly (but not identically) to the High-growth - Rocket ventures. Organic ventures go through the Survival stage conservatively and follow organic strategies that seek resilience until breakeven. In the Growth stage, however, Organic – Gazelle ventures intend to grow fast. Microsoft, Dell, eBay, Wal-Mart, and DHL exemplify Organic ventures that have grown into large enterprises. Up to 3% of ventures can be classified as Organic – Gazelle ventures⁶. Figure 4 depicts the ideal type of cash-flow and sales for Organic – Gazelle ventures.

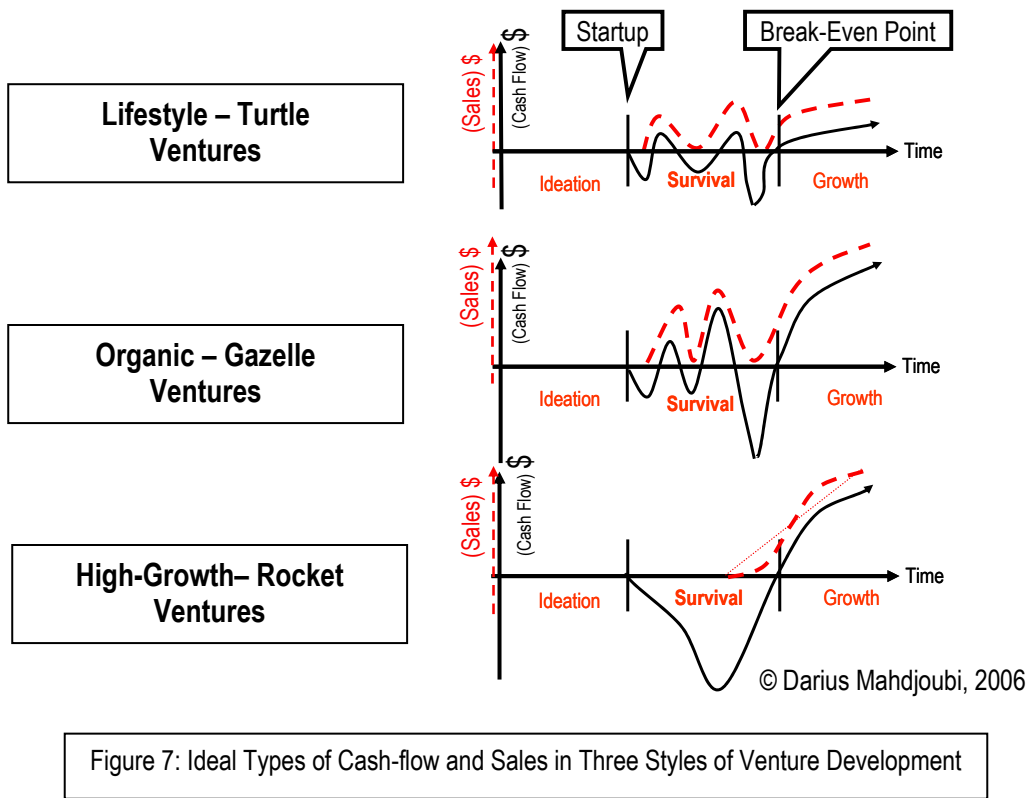


Figure 7: Ideal Types of Cash-flow and Sales in Three Styles of Venture Development

Figure 7 compares the patterns of development for Lifestyle - Turtle, Fast Organic – Gazelle, and High-growth - Rocket ventures during the Survival and Growth stages, as a function of cash-flow (in red color curves) and sales (in black color curves). High-growth - Rocket ventures try to leap over the Survival stage as if there are already in the Growth stage. Fast Organic ventures are distinct graphically from Lifestyle ventures due to their rapid development in the Growth stage. Patterns of business development, beyond the Growth stage are not shown here and they are reviewed by the authors elsewhere.⁷

Figure 6 does not intend to provide a common time scale for the stages of venture development (Ideation, Survival, and Growth) among the three styles of venture development (High-growth – Rocket, Fast Organic – Gazelle, and Lifestyle – Turtle). The time scale for each case can vary widely. The Survival stage of High-Growth ventures, for instance, may take longer than the Survival stage Fast Organic and Lifestyle ventures.

Although Organic – Gazelle ventures in the Survival stage have similarities with the Lifestyle ventures, yet they are distinct from the Lifestyle ventures even in the Ideation stage. The founders of Fast Organic – Gazelle ventures are distinct from the founders of the Lifestyle – Turtle ventures in their aspirations (strong desires for high achievement) and the types of technologies that they pursue. Unlike the founders of Lifestyle ventures, and like the founders of High-growth ventures, the founders of Fast Organic ventures desire to develop their small ventures into large enterprises. Fast Organic and High-growth ventures follow different patterns of development during the Survival stage of the business lifecycle. In the Growth stage Fast Organic and High-growth ventures follow common patterns of extensive growth.

While few High-growth ventures demonstrate extensive profitability, and a majority of Lifestyle ventures cling to the safety of low cash-flow, Fast Organic – Gazelle ventures build value while minimizing fixed costs. They keep expenses at a minimum, and achieve profitability soon after startup. They are able to position themselves to grow fast later and warrant major external investment in the Growth stage. If properly resourced and supported at the right time after breakeven, Fast Organic ventures can attain rapid growth and significant revenues without the debt burden and high cost structures of High-growth – Rocket ventures.

The Conceptual (Theoretical) Background of the Styles of Venture Development

The proposed classification for the Styles of Venture Development, **High-Growth – Rocket**, **Fast Organic – Gazelle** and **Lifestyle - Turtle**, is based on the convergence of two major studies on entrepreneurship and venture development: 1) *Who is Creating Jobs?*⁸, by David Birch (1983), and *The Origin and Evolution of New Businesses*⁹, by Amar Bhidé (2000).

David Birch (1983) studied over 11 million firms over four years and classified and defined “Gazelles” as small ventures that have grown at least 20% per year for four consecutive years. David Birch in another paper (1997)¹⁰ came to the conclusion that

“Gazelles represented about 3% of the firm population, and they accounted for more than 70% of the [job] growth. ... Because Gazelles are so important as creators of new jobs, it is important to understand as much as possible about them. We know that, for the most part, they start small and grow into the mid-size category quickly.”

Birch’s study, however, does not elaborate on the unique characteristics of High-growth Ventures versus Fast Organic ventures, nor on the factors that contribute to the development of Fast Organic ventures.

Amar Bhide (2000) categorizes startup ventures into the following groups:

- Marginal startups consist of the small businesses that have little prospect of attaining significant size or profitability.
- Promising startups started as small independent ventures, but have been able to grow substantially exemplified by the *Inc. 500* companies
- VC backed startups represent an out-of-the ordinary phenomenon. VCs provided capital to an elite group of entrepreneurs after careful, due diligence and research.

In the context of the proposed classification for the styles of venture development, “Marginal startups” are comparable with the Lifestyle - Turtle ventures, “Promising startups” are comparable with Organic – Gazelle ventures, and “VC-Backed startups” are comparable with the High-growth – Rocket ventures.

Bhide’s classification of startups is a major in entrepreneurship study, but it mixes patterns of venture development (marginal and promising) with sources of capital (VC backed startups).

There have been cases of self-financed ventures, such as NeXT by Steve Jobs, which followed a

High-growth – Rocket mode, and VC-backed ventures, such as Digital Equipment Corporation (DEC), which followed a Organic – Gazelle mode.

The Factors that Impact the Styles of Venture Development in the Survival Stage

Consistent with accounting principles, the minimum amount of total financial capital required to set up a new venture is equal to the cumulative cash-flow between startup and breakeven.

Cumulative cash-flow is successive additions of all cash-flows streams (positive or negative) between two points. After breakeven, a new venture generates profit and does not need any more financial capital from the founders and investors, unless it intends to expand the business to new regions or new products.

Existing studies (Bhide, 2000) indicate in the Survival stage High-growth – Rocket ventures act like they are already in their Growth stage and operate like mature businesses. High-growth – Rocket ventures need extensive financial backing, yet the presence of capital does not guarantee longer term sustainability; abundant initial capital sometimes may result in unrestricted spending. In contrast, Fast Organic - Gazelle ventures seek modest amounts of financial capital to pass the Survival stage. Fast Organic – Gazelle ventures leverage dedicated resources with the least risk. John Case also observed that “A few companies take off like rockets almost from birth. Gazelles, however, follow a gradual development phase followed by a robust (but not explosive) growth. Most gazelles don’t get any formal VC money at all.”¹¹ Lifestyle ventures typically require little initial capital and often rely on the financial resources of the founders, their families and friends.

New ventures with R&D-derived core technology require large infusions of financial capital for product and process development during the Ideation stage and need to follow High-growth mode to pass the Survival stage and enter the Growth stage. Furthermore, the requirement for executive management and board governance is much higher for High-growth ventures than for Fast Organic ventures. Costly investments during Ideation and Survival leave little room for trial and error in the commercialization path; early missteps may lead to very expensive and disappointing consequences.

Fast Organic ventures differ from High-growth ventures in the type of technologies that they envision in the Ideation stage and then pursue in the Survival stage. Fast Organic ventures in their Survival stage are not based on technologies that require lengthy, expensive scientific processes or extensive and expensive market research. Frequently the technologies of Fast Organic ventures are based on the development of existing technologies or major (advanced) reverse engineering. At the same time, Fast Organic ventures are founded on longer term plans that are able to capitalize on new technologies, as the ventures go through the Growth stage and beyond. The management style of Fast Organic ventures strives for efficiency and does not scale for explosive growth until the venture is profitable and products satisfy specific market demands. Lifestyle – Turtle ventures embark on existing technologies or minor reverse engineering.

As it was discussed before, founders' aspirations play a key role in the selected style of venture development. Many founders of the Lifestyle ventures never intend to achieve large growth and prefer their companies to remain modest. Unlike the founders of Lifestyle ventures, and like the founders of High-growth ventures, the founders of Fast Organic ventures desire to develop their small ventures into large enterprises.

Innovation

Innovation is one of the three Variable factors of Action Business Planning. Setting up successful ventures requires innovation which is not confined to technology. Many successful businesses leveraged existing technologies to embark on the challenges of the Survival stage. Microsoft, Dell, Starbucks, Wal-Mart, and Southwest Airlines, to mention just a few, did not start with superior technologies. In the later stages of their development, however, growing businesses apply technological innovation for further development, and to make barriers for the entry for the growth of new ventures still in their Survival stage.

Entrepreneurs, as part of their action plans, need to explicate the different aspects of innovation and development that they use to differentiate their ventures. Business activities, broadly speaking, can be organized into four main groups: 1) How to make – technology, 2) How to sell

– customer/market, 3) How to recruit and retain employees – human resources, and 4) How to integrate – organization. Innovation and development are applicable to all aspects of a business. Accordingly, innovation and development are also categorized into four interrelated groups:

- 1) **Technological innovation** (technology development),
- 2) **Customer/market development** (customer innovation),
- 3) **Human resource development**, which also includes learning and creativity, and
- 4) **Organizational development** which also includes change and leadership. Four aspects of innovation have nonlinear relationships with each other. They are distinct but are linked, like a map. Organizational development often links them all. The four groups of innovation can be perceived as four continents of a map.

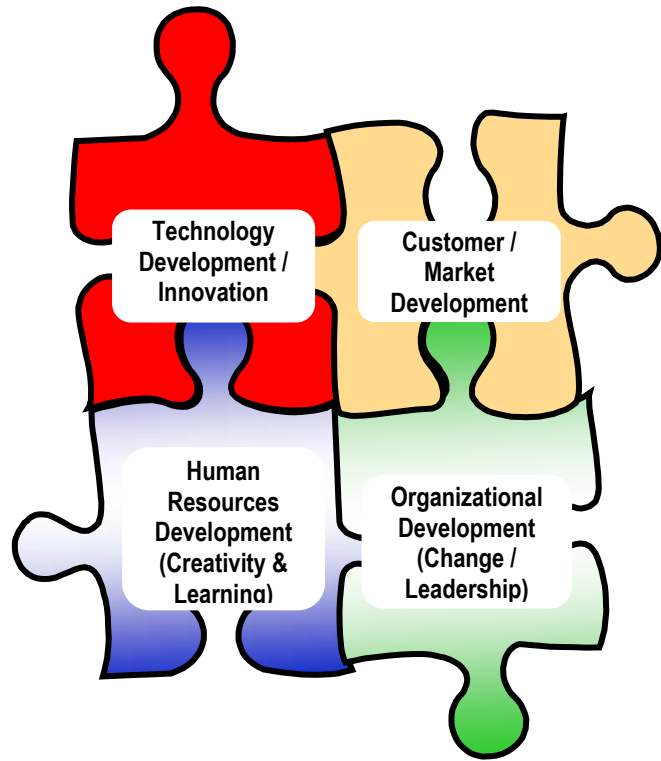


Figure 8: The Innovation Map Model

Technology holds the most visible part of innovation and development. Technology, however, it is not necessarily always the most important part of the process of innovation. Innovation and development occur in non-linear formats and they have connections with other aspects of venture (new business) development including sources of capital and the Styles of Venture Development.

The Action Business Planning, due its structure that integrates the role of innovation and financial capital with styles of venture development provides a comprehensive procedural tool to evaluate new ventures or new projects. Innovation and technology are also linked with the Styles of Venture Development. For instance, there are R&D-intensive cases, such as pharmaceutical ventures, for which a High-Growth mode seems most sensible. In such cases, relying on the Turtle or Gazelle modes may not be the first choice. On the other hand, depending on the

available financial capital and business goals, an Organic mode may be the appropriate first choice.

Financial Capital

Financial capital plays a key role in the process of business development and entrepreneurship. Conventionally the sources of financial capital are classified under four inter-related topics, as in Figure 8.

1. **Personal Resources:** Personal savings of entrepreneurs, and their direct acquaintances (family and friends).

2. **Loan and Credit:** Loans from commercial banks, financial institutions and sometimes suppliers and customers (in the shape of credits and down payments).

3. **Equity (Investment):** Investment by Institutional Investors (Venture Capitalists – VCs, Investment Banks), Individual Investors (Angel Investors) and Corporation Investors who seek equity in exchange of their investments.

4. **Government and Philanthropic resources:** Grants and subsidies for government agencies and philanthropic organizations to support specific types of industries or regions.

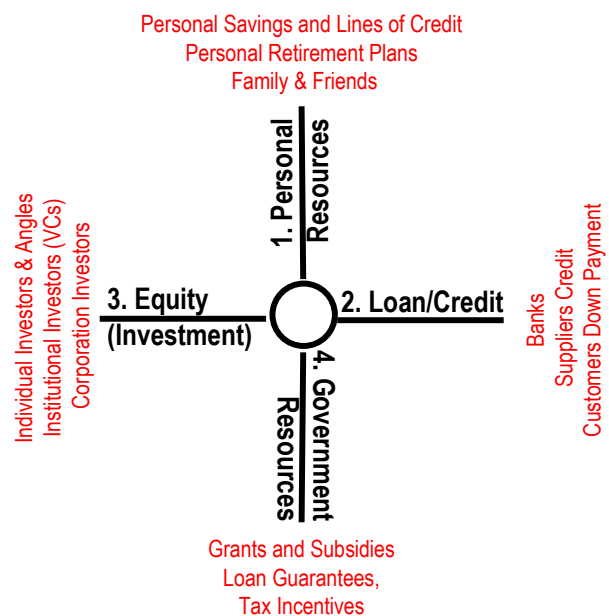


Figure 9: Major Sources of Financial Capital

It is important to note that these sources of capital are not mutually exclusive. For example some banks (e.g. Business Development Bank of Canada - a crown corporation of the Federal Government of Canada) provide both business loans and venture capital. Some government agencies, like the Small Business Administration (SBA), actually do not provide any loan, rather they can guarantee loans, as a type of collateral. In order to attract and nurture specific types of

industries to support a regional or national development, government agencies sometimes provide tax shelters or tax reliefs.

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. A Fast Organic - Gazelle mode usually relies on modest financial capital, often from personal resources, and some individual (angel) investors, as well as loans and credits from suppliers and customers. Lifestyle – Turtle ventures - Compared with High-growth and Fast Organic mode - require least amount of financial capital to start with, and they often rely on the personal resources of the founders.

Relying on extensive amount of capital, High-growth - Rocket ventures intend to act like mature businesses. But the presence of capital does not guarantee long-term sustainability. The availability of abundant initial capital might be associated with unrestrained spending. Those enterprises that followed a Fast Organic – Gazelle mode and crossed the Survival Stage (the Valley of Death) successfully have had a relatively high degree of resilience and growth.

This document, so far, has briefly reviewed the three main variable factors, namely: the Styles of Venture Development, Innovation and Financial Capital. Action Business Planning also includes four structural factors, namely **Location structure**, **Human structure**, **Industrial structure**, and **Legal Structure**, as well as **Unknowns** and **Unexpected**, which are not reviewed in this brief description of Action Business Planning. The detail of the structural factors and the variable factors, are articulated in the main document on Action Business Planning.

Linking Action Business Planning and Formal Business Plan

Action Business Planning and Formal Business Plans are *not* mutually exclusive. Action Business Planning is a migration platform from, and an alternative to Formal Business Plans. Action Business Planning is, however, reverse-applicable to Formal Business Plans, like Windows and DOS. DOS was linear text based platform for operating system and Windows was non-linear graphic platform. Windows is a migration from DOS, and on the same time Windows

is reverse applicable to DOS. 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 mainstream procedures for business development. This document does *not* advocate that academic courses or business support programs should abandon Formal Business Plans; rather, it describes Action Business Planning as a new non-linear platform for business development and how to link it with conventional formal business plans.

A key distinction of Action Business Planning, versus formal business plans, is the styles of development in the Ideation, Survival and Growth stages of venture development. Formal business plans, almost exclusively rely on the High-Growth Rocket ventures, and assume that all new ventures during the Survival stage behave almost the same as their Growth stage. In case Rocket ventures are not able to pass the break-even point and generate profit, the extensive amount of costs in the Survival stage often leads to far-reaching debts and hard-landing.

Action Business Planning, however, appreciates that the styles of venture development is not confined to High-Growth (Rocket ventures) and new ventures may behave differently in the Survival versus the Growth stages of development. The styles of venture make a link between innovation and financial capital. In addition, by articulating the styles of venture development for new ventures Action Business Planning provides practical tool for decision making, and soft landing in case the new venture is not able to achieve its goals and dies in the Survival stage.

Earlier this document categorized Formal business plans into seven consecutive stages: 1) **Product description**, 2) **Market study**, 3) **Sales estimate**, 4) **Capacity of production**, 5) **Facilities planning**, 6) **Personnel and human resources**, and 7) **Financial analysis**. Having data about Action Business Planning, it would be fairly easy to develop Formal business plans if they are needed, consistent with the expectations of the audiences.

1. Product description: Use data from the Product section of Technology Development or Customer Development of the Innovation Plan.

2. Market Study: Use data from Customer/Market Development of the Innovation Plan.

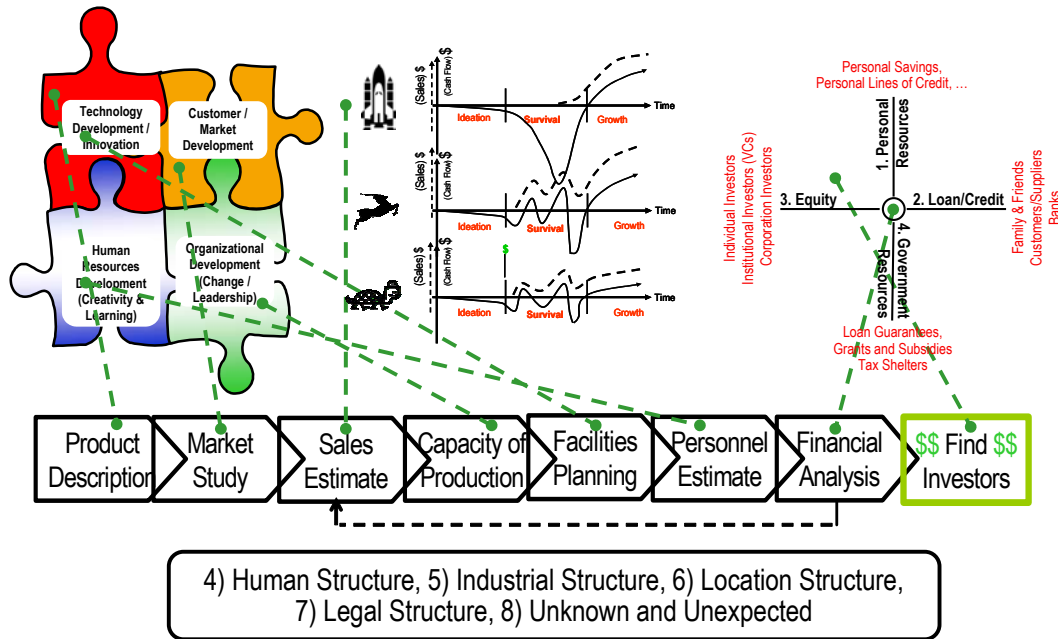


Figure 10: Linking Action Business Planning and Formal Business Plans

3. Sales Estimate: The Styles of Venture Development, previously categorized into High-Growth (Rocket), Organic (Gazelle) and Slow Lifestyle (Turtle) ventures, is the most influential element in sales estimate. In each case, actual pattern to reach the breakeven point may happen in four scenarios: Best case, Optimistic, Pessimistic and Worst Case. For the purpose of Formal Business Plans, however, only the Best case scenario should be presented to the external investors or other sources of financial capital. For practical purposes of the entrepreneurs and for internal purposes, however, the Worst case scenario should be elaborated to make a soft-landing in case the venture would not be successful (near-failure). Risk analysis should be conducted for the Optimistic scenario.

4. Capacity of production: Capacity of production is influenced not only by the sales estimate but also by the overall goal of a business regarding growth, employment, and outsourcing as well as the strategic technical matters.

5. Facilities planning: Use data from the Facilities section of Technology Development of the Innovation Plan.

6. Personnel. Use data from Human Resources Development of the Innovation Plan.

7. Financial Analysis: Use data from the Financial Estimation section of Action Business Planning. For the purpose of Formal Business Plans, however, only financial estimation for the Best case scenario should be presented.

Venture Mortality, Hard-Landing and Soft-Landing

The high rate of business mortality in the early stages of business development is a grim fact of entrepreneurship. “Redefining Business Success,¹²” a paper by Brian Headd (Director of Economic Research, Office of Advocacy, SBA), concludes that one third of new ventures do not survive beyond two years, and half beyond four years. Accordingly the median age of businesses in the U.S. is about four years. The same paper indicates that not all closures are failure, as owners of about one-third of businesses that closed said their firm was successful at closure.

Historical studies have indicated that successful entrepreneurs often have reached their success venture in their third or fourth entrepreneurial attempt. For example Microsoft Inc., started in 1981, is the fourth venture that Paul Allen and Bill Gates founded. Prior to this successful venture, the two business partners embarked on three other ventures that demised (failed), but each venture made a basis for the next. The three ventures of Allen and Gates included: 1) The Lakeside Programmers Group (in 1968, Gates and Allen were still in high-school), 2) Traf-O-Data (in 1970), where Gates and Allen used a new microprocessor to develop a system that performed traffic volume count for municipalities, and 3) Micro-Soft partnership (in January 1975 in Albuquerque). In January 1979, Gates and Allen moved the partnership to Seattle. In 1981, they registered Microsoft Inc. Those demised (failed) ventures of Allen and Gates were essential for the development of Microsoft Inc. Henry Ford to mention just a case, faced previous business failures (mortality) prior to his spectacular success, Ford Motor Company. Henry Ford’s first two business ventures, Detroit Automobile Company (established in 1899) and Henry Ford Company (founded in 1901) were demised (failed); but they laid the foundation for the successful Ford Motor Company, established in 1903. Many other entrepreneurs have been able to assimilate the lessons learned in their initial demised (failed) ventures in order to embark on new successful ventures.

“Hard-landing” is defined as failed new venture in which founding entrepreneurs are financially broken and leave the game without having the chance to use their experience to start a new venture. “Soft-Landing” is defined as a demised (failed) in which the founding entrepreneurs are not financially broken and are able to learn from their experiences to start a new venture.

Unlike Formal business plans that rarely, if ever, make a reference to venture mortality (early stage venture closures) and hard-landing, Action Business Planning is based on the fact that venture mortality is a serious matter and that hard-landing should be addressed from the very beginning. A goal of an Action Business Plan is to provide a practical basis for the entrepreneurs to learn from their failures and to develop new ventures from a soft-landing.

Application of Action Business Planning

As a migration from formal business plans, Action Business Planning can be used at the same levels that formal business plans traditionally have been used, in addition there will be emerging applications for Action Business Planning beyond formal business plans by investment banks. Action Business Plans have been taught as academic courses at St. Edward’s University in Austin, TX, the Innovation School in Norway and the Instituto Superior Técnico (IST) in Portugal. In the academic courses of St. Edward’s University, the students need to develop an Action Business Plan for the ideas of their choice and then develop conventional formal business plans based on the contents of their Action Business Plans. This process allows the students to explore the interactions between the two approaches. At the Innovation School in Norway, however, the Action Business Planning is culmination of the master level program. At the Instituto Superior Técnico (IST) in Portugal, Action Business Planning was taught in a brief format due to time constrains. Action Business Planning has also been presented in professional workshops for the Small Business Counselors in Texas. The results of those programs have been very promising. Further study about Action Business Planning is under investigation at the IC² Institute of the University of Texas at Austin.

References

¹ Bhide, Amar. (1994). "How Entrepreneurs Craft Strategies that Work." *Harvard Business Review*. March-April. pp. 150-161.

² Mahdjoubi, Darius. (2004). *Knowledge, Innovation and Entrepreneurship: Business Plans, Capital, Technology and Growth of New Ventures in Austin, Texas*. (A Ph.D. Dissertation). Austin: The University of Texas at Austin.

³ Numerous resources categorized new ventures into two groups of High-growth versus Lifestyle. The following list includes the major resources.

* Timmons, Jeffrey and Stephen Spinelli. (2007). *New Venture Creation: Entrepreneurship for the 21st Century* (Seventh Edition). Boston: Irwin.

* Gumpert, David, "Creating a Successful Business Plan", appeared in Bygrave, William (Editor), 1994. *The Portable MBA in Entrepreneurship*. New York: John Wiley & Sons

* Wetszel, William, "Venture Capital.", appeared in Bygrave, William (Editor), 1994. *The Portable MBA in Entrepreneurship*. New York: John Wiley & Sons

* Frair, John and Marc Meyer. (2003) "Entrepreneurship and Start-ups in the Boston Region: Factors Differentiating High-Growth Ventures from Micro-Ventures. *Small Business Economics*. **21**: 145-152

* Allen, K. R. (1999). *Launching New Venture: An Entrepreneurial Approach*. Boston: Houghton Mifflin.

* de Bettignies, Jean-Etienne. "Financing the Entrepreneurial Venture" Social Science Electronic Publishing

⁴ <http://www.sba.gov/advo/stats/sbfaq.pdf>

⁵ Source: <http://www.census.gov/csd/susb/susb04.htm>

⁶ Source: See Candida Brush, Nancy Carter, Elizabeth Gatewood, Patricia Greene, and Mayra Hart, (2004); *Clearing the Hurdles: Women Building High-Growth Businesses*. Upper Saddle River, NJ: Pearson Education

⁷ Mahdjoubi, Darius and David Gibson (2006). *The S Model of Business Lifecycle: A Comparative Historical Analysis*.

⁸ Birch, David, Anne Haggerty and William Parsons. (1983). *Who is Creating Jobs?*. Boston: Cognetics Inc.

⁹ Bhide, Amar. (2000). *The Origin and Evolution of New Businesses*. Boston: Harvard Business School Press.

¹⁰ Birch, David, Anne Haggerty and William Parsons. (1997). *Who is Creating Jobs?*. Boston: Cognetics, Inc.

¹¹ Case, John. 2001. "The Gazelle Theory." *Inc. Magazine* (May 2001)

¹² Headd, Brian. (2003) "Redefining Business Success: Distinguishing between Closure and Failure." *Small Business Economics*. **21**: 51-61