

# Reverse Action Business Plans

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Action plans are prepared with foresight to assist entrepreneurs in the process of setting up new ventures. Reverse (reflection) action plans are prepared in hindsight to let us review the evolution of existing or terminated ventures and to learn from them. It is certainly easier to live with the benefit of hindsight (to develop a reverse action plan) than to face the uncertainty of foresight (to develop an actual action plan). Reverse action plan cases articulate the “seven key facets” of Action Business Planning. Reverse action business plans also demonstrate that, unlike formal business plans which are often lengthy documents, action business planning for venture development can be summarized in short, informative, and practical formats.

Reverse action plans of **Body Shop**, **Microsoft**, **Lotus Software**, **Starbucks**, **Virgin Atlantic Airways**, **Southwest Airline** and **Post-It-Note** serves to demonstrate the scope and validity of the proposed structure for Action Business Planning.

## The Body Shop Reverse Action Plan

Anita and Gordon Roddick, in 1976, co-founded The Body Shop in a small and scruffy shop. Currently Body Shop is an international chain shops for cosmetic products. Gordon organized the action plan, and developed the formal business plan to apply for a bank loan – see attached document. Anita implemented the Survival stage. The action plan did not foresee a Growth stage, which later made problems. Gordon on the same time was making another action plan for his own expedition across some of the most remote parts of South America. Apparently the two action plans were interwoven; Gordon's competence to develop the action plan for his adventure helped him to develop the action plan for The Body Shop. *Body and Soul*, Anita's memoir, portrays setting up of The Body Shop from scratch. The book also contains an interesting "case story" about development of the formal business plan and the actual action plan of The Body Shop.

1. **Sources of Capital:** A £4000 bank loan. A small hotel that the founders lived in was the loan's collateral.
2. **Survival Path:** The Body Shop followed an organic-path (Turtle to Gazelle) in the survival stage with a limited "initial survival period" of only six months. The action plan called for sales of £300 per week to survive. See sections of *Body and Soul* for more detail.
3. **Innovation and Change:** Technological Innovation: Introduction of a series of natural-based cosmetic products for women. Customer/market Development: Special shops for cosmetics and a new customer/market development approach based on selling cosmetics in recyclable packages. The plastic bottles that were used by hospitals to collect urine samples!
4. **Human Structure:** Anita and Gordon Roddick in many aspects were complementary to each other. Anita was in charge of sales and technology, and Gordon dealt with organization and planning. Founders' joint experience in running a restaurant prior to The Body Shop was instrumental in their later success in the development of The Body Shop.
5. **Industrial Structure:** Traditionally the cosmetic industry is structured around synthetic products and expensive packaging. The Body Shop offered an alternative to sell organic-based products in recyclable packages.
6. **Location Structure:** The Body Shop started in 1976. The first shop was located in a pedestrian precinct close to the center of Brighton (in south of England). Brighton has strong student culture and it was fashionable, up-market and expensive, yet popular with hippies, artists and the liberal intelligentsia.
7. **Unknown and Unexpected:** The summer of 1976 was one of the hottest on record, and Brighton was enjoying its best season for years. That was ideal for the survival of The Body Shop.

## Microsoft Reverse Action Plan

Bill Gates and Paul Allen co-co-founded **Microsoft Inc.** in 1981. Prior to Microsoft Inc. Gates and Allen, however, co-founded three other ventures: 1) **The Lakeside Programmers Group** (in 1968, still in high-school), 2) **Traf-O-Data** (in 1970), where they used microprocessor to develop a system that performed traffic volume count for municipalities, and 3) **Microsoft partnership** (in January 1975 in Albuquerque) and they moved Microsoft partnership to Seattle, WA in January 1979. In 1980 Steve Ballmer joined the team. Scattered information exists about action plans of Microsoft, for instance in *The Road Ahead* (by Gates) and in interviews with Fortune in 1995.

1. **Sources of Capital:** Personal resources of the founders. Allen and Gates worked as programmers and they had access to a modest amount of capital to start Microsoft partnership. Gats and Allen did not use family resources and they did not apply for bank loans or external investments.
2. **Survival Path:** Microsoft followed a fast organic path for survival stage (Gazelle). In Albuquerque Gates and Allen lived in an inexpensive motel, and this is consistent with the survival strategy that they pursued. They followed the same survival strategy for Microsoft Inc. in Seattle. In 1975, Gales applied for only one semester leave of absence from Harvard. It implies had a limited time survival stage in mind.
3. **Innovation and Change:** Technological innovation: BASIC language program for micro-computers. BASIC, developed in 1964 by John Kemeny and Thomas Kurtz, was in public domain but in 1975 it was available for mini-computer platforms. BASIC for micro-computers was an advanced reverse engineering. To develop BASIC for micro-computer, however, Gates and Allen used mini-computers to simulate micro-computers. In Traf-O-Data they also used the same technique. The experience they gained in Traf-O-Data was instrumental in the development of Microsoft BASIC for micro-computers.
4. **Human Structure:** In 1975 Bill Gates and Paul Allen were two young entrepreneurs, from upper middle class families in Seattle, in their early twenties. They, however, had about 7 years of experience in programming and software development for mini-computers. Both of them were heavily engaged in coding (actual software development). In many other respects, however, they were complementary to each other. Originally Allen was the leader and Gates followed, later Allen concentrated on technical aspects and Gates led with sales and administrative aspects.
5. **Industrial Structure:** In the mid-1970s, computer industry was dominated by a hand full of large enterprises, like IBM, and DEC. They made priority products that included both hardware and software. Software was mostly an extension of to hardware and there were very few independent software development firms. The advent of micro-computers changed the above industrial structure. Microsoft was able to benefit from the new industrial structure.
6. **Location Structure:** Microsoft partnership started in 1975 in Albuquerque, New Mexico. MITS (located in Albuquerque) was Microsoft's first client. MITS was the first company to sell an inexpensive personal computer kit to the general public. In return for programming languages, like BASIC, MITS gave Microsoft royalties and office space during the first year.
7. **Legal Structure:** The legal structure of the software industry is not very tight.
8. **Unknown and Unexpected.** In May 1976, MITS was acquired by Pertec, which stopped paying Microsoft. The matter went to arbitration. Bill Gates wrote "We had no income for a year and were basically broke. ... The MITS experience, suddenly having no income, made me conservative financially, a trait that persists to this day".

## Lotus Software Reverse Action Plan

Mitch Kapor and Jonathan Sachs founded Lotus Software (Lotus Development Corporation) in 1982. In January 1983 Lotus introduced **Lotus 1-2-3**, a spreadsheet application for IBM PCs.

1. **Sources of Capital:** In 1981 Mitch Kapor developed a business plan for Lotus Development Corporation (Lotus Software), he made personal investments and then received \$ 4.7 million venture capital funding from Ben Rosen.
2. **Survival Path:** In contrast to Microsoft, Lotus Software followed an Express path in the survival stage (Rocket). In 1983, Lotus's first year of sales, the company achieved revenues of about \$53 million, and in 1984 sales tripled to \$156 million. The fast pace Rocket strategy of Lotus outperformed many potential competitors.
3. **Innovation and Change:** Technological innovation: Lotus 1-2-3 took advantage of PC's new 16-bit architecture and replaced VisiCalc, which was the first spreadsheet program available for 8-bit personal computers, such as Apple II. The 16-bit architecture provided a broad range of functionalities beyond the abilities of an 8-bit architecture. From customer development point of view Lotus Software made the software industry's first serious advertising campaign. Lotus Software, however, sold its products through conventional procedures like retail sales to end-users and OEM as part of new PCs.
4. **Human Structure:** Kapor's background included working as a disc jockey and transcendental meditation instructor. He studied psychology, linguistics, and computer science as part of an interdisciplinary major in cybernetics. Before Lotus, Mitch Kapor had started and successfully developed three software companies. He was also a product manager for Visicalc, the first electronic spreadsheet. Jonathan Sachs, who was in charge of technical architecture and implementation, had already designed and implemented spreadsheet software for mini-computers.
5. **Industrial Structure:** IBM Personal Computer (PC) was introduced in August 1981, and it made a new industrial structure for the computing industry. PC was an IBM attempt to enter in the micro-computer market dominated by Apple II. Both Apple II and IBM PC were based on an open architecture that allowed independent software developer make new software. In 1982 a new industrial structure for micro-computer emerged that was based on the rivalry between Apple II and IBM PC. Corporate environment was IBM PC's main target market, and Lotus 1-2-3 became the "killer application" and it contributed to the success of IBM PC.
6. **Location:** Lotus Software had headquarters in Cambridge, Massachusetts. Reportedly, 1-2-3 was originally written by a student at Harvard University, who sold it to Lotus. Many universities of Boston area provided a strong pool of software developers.
7. **Legal Structure:** The legal structure of the software industry is not very tight.
8. **Unknown and Unexpected:** Lotus exceeded its sales projections by a wide margin. In 1983 Lotus had a successful initial public offering - IPO. The number of employees grew to over a thousand by 1985.

## Starbucks Reverse Action Plan

Starbucks Inc. is a large multinational chain of coffee shops. As of January 2005, Starbucks had about 9000 outlets, 2/3 of them in the U.S. Starbucks Inc., as it is today, is actually the child of two parents. The first one is Starbucks Coffee Co. founded in 1971, and the second one is Il Giornale, founded in 1985. Starbucks Coffee Co. and Il Giornale followed two different paths of development. Starbucks Coffee Co. was a typical Turtle-venture and Il Giornale was an exemplary case of a Rocket-venture. The story of Starbucks has been narrated in *Pour Your Heart into It*, by Howard Schulz, who worked for Starbucks Coffee Co. and later founded Il Giornale and Starbucks Inc.

Starbucks Coffee Co. (the first Starbucks) was established in August 1971 by three friends, partners and teachers, Jerry Baldwin (English), Zev Siegel (History), and Gordon Bowker (Writer) wanting to sell high-quality coffee beans. The three partners did not have a formal business plan. Each partner invested \$1,350 and they borrowed an additional \$5,000 from a bank. In 1971 they opened their first retail store in a location across from Pike Place Market, in Seattle, WA to sell roasted coffee. They did not serve coffee. It took almost 15 years for Starbucks Coffee Co. to open 6 stores, all in Seattle area. Starbucks Coffee Co., however, was cash-flow positive from year one.

In 1982 Howard Schultz joined Starbucks Coffee Co., and later in a business trip to Milan, Italy he was inspired by the Italian espresso bars. Schultz suggested outlets and coffee shop for Italian espresso bars to Starbucks founders, based on the idea that “Seattle’s office workers would fall in love with espresso bars, as people in Milan do.” Starbucks founders did not accept the idea of Italian espresso bars but they helped Schulz to pursue his idea. Starbucks Coffee Co. was the first investor first investor in Schultz’s venture

In 1985 Howard Schultz developed a detailed formal business plan, including an architect’s blueprint drawn up for the first store to sell cappuccino, Italian style in chain coffee shops named Il Giornale. Il Giornale opened its first store in April 1986, and from beginning it pursued a fast pace Rocket strategy. One year after inception, Il Giornale bought Starbucks Coffee Co., and changed its name to Starbucks Inc. Two years after start-up, Starbucks Inc. (Il Giornale) had more than 15 stores. It took, however, more than four years for Starbucks Inc. (Il Giornale) to become profitable.

Il Giornale did not have a proprietary idea or technology. Starbucks, however, has reputed as a center for socializing, particularly among students and young urban professionals. Starbucks contributed to an organizational innovation at a social level. From human resources development perspective, however, Starbucks Inc. has incorporated interesting novelties. For instance, Starbucks is known for providing even part-time employees with healthcare benefits and stock options.

## Virgin Atlantic Airways Reverse Action Plan

Richard Branson and Randolph Fields co-founded Virgin Atlantic in February 1984 to fly between Gatwick (near London) and Newark (near New York). The route was vacant since 1982. Currently Virgin Atlantic is Britain's second largest long-haul airline. Prior to Virgin Atlantic, Branson founded a series of new ventures, varying from Students (a magazine) to Virgin Music (a pop and rock music record-label company). Field, who initiated the idea of new airline, was a lawyer. Richard Branson in *Losing My Virginity* (his memoir) describes the Ideation (Inception), Survival and Growth stages of Virgin Atlantic Airways.

1. **Sources of Capital:** Richard Branson financed Virgin Atlantic from the resources of Virgin Group. According Virgin Atlantic is a corporation-funded venture.
2. **Survival Strategy:** Virgin Atlantic followed an organic path in the survival stage (Gazelle) with limited time scope of only one year, to have a “clear escape route if all failed.” Virgin Atlantic started with one airplane leased from Boeing for only one year, and used the maintenance facilities of British Caledonian airways. Employee contracts were also initially for only one year.
3. **Innovation and Change:** Virgin Atlantic did not initiate a major technological innovation, as it used existing technologies like 474 Jumbo jet. From customer development perspective, however, Virgin Atlantic embraced numerous features. Virgin Atlantic offered first-class service at business-class fares. In 1984 People Express was the only airline that offered inexpensive fares across the Atlantic, but it was poorly managed. Branson often had the advice of Freddie Laker, who in the early 1980s started an independent air carrier between Gatwick and Newark and his venture busted in 1982 and left the Gatwick- Newark route vacant. Branson, based on his previous experiences, envisioned that, like the music business, aviation is a consumer-led industry. This is likely the most important innovation aspects of the new venture.
4. **Human Structure:** Virgin Atlantic originally started as a 50-50 partnership between Richard Branson and Randolph Fields. The partners could not work with each other. Branson first change the equal partnership and later obliged Fields to leave.
5. **Industrial Structure:** British Airway (B.A.) was U.K. flag carrier, and it indeed made the industrial structure for commercial aviation in the U.K. Virgin Atlantic needed to cope and compete with B.A. from day one.
6. **Location Structure:** In June 1984 Virgin Atlantic started to operate only between Gatwick and Newark. Gatwick is the second major civil airport around London, after Heathrow. Newark is the second major civil airport around New York, after JFK.
7. **Legal Structure:** Civil aviation is one of the most regulated industries in the world, likely second only to pharmaceutical. Setting up a new air carrier requires numerous government licenses. International flights are subject to inter-governmental agreements.
8. **Unknown and Unexpected:** 1) On the eve of the airline’s maiden flight in 1984, there was an engine failure, it costs more than half a million dollar. 2) In 1987 British Airways (B.A.) acquired British Caledonian (B.C.). This acquisition made unexpected opportunities and challenges for Virgin Atlantic. For instance, Virgin was able to fill some routes used by B.C., which helped Virgin to grow faster. On the other hand, B.C. transferred the maintenance contract to B.A., which was Virgin’s main competitor. 3) Just prior to the first Gulf War in 1991, Virgin Atlantic was able to evacuate a group of British citizens stranded in Iraq. This unexpected vent made a major publicity advantage for Virgin Atlantic.

## Southwest Airline Reverse Action Plan

Accordingly to legends, the origin of the Southwest Airline goes to a sketch on a napkin for a three-city route between Dallas, Houston and San Antonio with a note that Rollin King wrote to Herb Kelleher that “Herb, let’s start an airline.” “Rollin, you’re crazy. Let’s do it.!” In 1967 Rollin King, Herb Kelleher, Alfred Negley and John Peace, four Texas business men with diverse backgrounds, invested personal resources and set out to raise nearly half a million dollars in second-tier capital to set up Southwest Airline. In 1968 the founders applied a file to the Texas Aeronautics Commission (TAC) to let Southwest Airline fly between Houston, Dallas and San Antonio. TAC approved the company’s application; however competing airlines took Southwest Airline to court in order to prohibit it to operate. The file ended up in the U.S. Supreme court in 1970, and finally in 1971 Southwest Airline became operational to fly between Houston, Dallas and San Antonio. Southwest had the license to operate but no money. The founders hired Lamar Muse as the CEO. Muse secured \$750,000 new round of individual financing and nearly \$7 million investment and credit (from Boeing) to buy three Boeing-737 aircrafts. The deal with Boeing included a discount of \$3 million (from the original price tag of \$15 million) and 90% finance and credit. The recession of the early 1970s helped the fledgling airline to buy airplanes at discount rate and to recruit highly qualified personnel. In 1973, Southwest became profitable. The Wright Amendment of the U.S. Congress in 1979 allowed Southwest to fly and offer service between Texas and bordering states, namely Louisiana, Arkansas, Oklahoma, and New Mexico. For the first two decades of its existence, Southwest was considered a regional airline. By 2002, however, Southwest was the fourth largest airline in the U.S. Southwest has been profitable every year. The key elements of Southwest success are not technology (Boeing 737) or location, as all passengers need to go the same airports. The key sources of Southwest, apparently, are its human and organizational resources.

1. **Sources of Capital:** Personal resources of the founders and individual investors and their friends. Southwest also enjoyed credit (loan) from its suppliers, for instance Boeing financed 90% of the original three airplanes.
2. **Survival Strategy:** Southwest followed an organic path survival strategy without a limited time scope. It took about three years for Southwest to initiate her first maiden flight. Southwest started with three 737 airplanes leased from Boeing.
3. **Innovation and Change:** Southwest did not initiate a major technological innovation, as it used existing technologies (Boeing 737). Southwest success is more related to organizational and human resources development.
4. **Human Structure:** Southwest started with four partners. Herb Kelleher played the key role to promote the businesses.
5. **Industrial Structure:** Airline industry is regulated and existing businesses often use those regulations as a barrier to entry for new ventures dare to initiate.
6. **Location Structure:** In 1971 Southwest started to operate in Texas first from a San Antonio headquarter and then from the Love Field airport in Dallas.
7. **Legal Structure:** Civil aviation is one of the most regulated industries in the world, likely second only to pharmaceutical. Setting up a new air carrier requires numerous government licenses. Texas Aeronautics Commission (TAC) made
8. **Unknown and Unexpected:**  
{The rest of the Reverse Action Plan for South West Airline is under construction!}