Action Business Planning – ABP: A Brief Description

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

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Formal Business Plans: Introduction

• Academic courses—in business, engineering, and law—teach students on how to write, read and interpret Formal business plans.
• This presentation introduces Action Business Planning, which is a migration from Formal business plans.
• Action Planning and Formal business plans are not mutually exclusive. Interactive links between Action planning and Formal business plans are beneficial to both. Action Planning helps Formal business plans to become more practical. Formal business plans help Action 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

Formal Business Plan (FBP): A document that intends to demonstrate the feasibility of a new business (so it is also called “feasibility study”). Formal Business Plans often act more formal than practical.


http://startup.wsj.com/columnists/enterprise/20070110-spons.html

Formal Business Plans: A Linear Structure

- Product Description
- Market Study
- Sales Estimate
- Capacity of Production
- Facilities Planning
- Personnel & Managers
- Financial Analysis

FBPs assume future pattern of sales of a venture that did not exist before is precisely predictable!!

Sales estimate is the Achilles’ heel of Formal Business Plans.

An linear or a S shape pattern of growth is common in many Formal business plans. The linear or S model of growth are “rarely” applicable in the real world cases.
Sales Estimates in a Business Textbook: 

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.

**Action Business Planning Variable Diagram**

- **Three Main Variables of Venture Development:**
  1. Innovation
  2. Styles of Venture Development
  3. Financial Capital

The three variables (Styles of Venture Development, Innovation and Financial Capital) are like three dimensions. This makes Action Business Planning non-linear.

Action Business Planning also includes four structures that are not illustrated here.
Entrepreneurship (Venturing): An Exploration

Action Business Planning is like a tool for to entrepreneurship (venturing) like an expeditionary exploration:

1. **Financial Capital** is like food and fuel. They provide the resources needed to initiate a new business.

2. **The Style of Venture Development** is like modes of transportation. It allows the venture to carry on, consistent with available resources.

3. **Innovation** is like a map. That allows the venture to look for and find proper paths, consistent with available capital resources and selected intention/strategy.

Formal Business Plans resemble road-maps, which are linear, simple to measure, but limited in alternatives and easily communicated. Action Business Planning provides area-maps, which are non-linear and difficult (but not impossible) to measure but offer a very wide range alternatives to pursue a goal.

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: **Ideation** (prior to Startup), **Survival** (between Startup and Breakeven) and **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.

For more information, see the “Venture Development Model”.

Geoffrey Moore
High-Growth Versus Lifestyle Businesses


The emphasis is often on High-Growth ventures, and how to look for financial capital from external resources to initiate new High-Growth ventures.

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. Fast Organic – Gazelle Ventures
3. Slow Lifestyle – Turtle Ventures
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.

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”
Fast Organic - Gazelle Ventures

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

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.

Business (Venture) Development Examples

- Lotus (VC-funded)
- Compaq (VC-funded)
- Federal Express
- Microsoft (Self-funded)
- Dell (Self-funded)
- Wal-Mart (Self-funded)
- NI (Self-funded)
- Digital (VC-funded)

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

Lotus Software: A Rocket Venture

• Prior to Lotus Software, Mitch Kapor was a product manager for Visicalc had and he 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.
Microsoft vs. Lotus Sales, $ Million

This diagram compares the patterns of development of High-Growth – Rocket and Fast Organic – Gazelle ventures for two software companies: 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.

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.
Dell: A Gazelle Venture

- In 1983 Michael Dell (18 years old) moved to Austin to became 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 1999, Dell reached $25 billion in sales and overtook Compaq.

Compaq vs. Dell Sales, $ Million

This diagram compares the patterns of development of High-Growth – Rocket and Fast Organic – Gazelle ventures for two PC makers, Compaq and Dell. Nine years after their, in 1990, the sales of Compaq (a High-growth Rocket ventures) was about 10 times more than Dell (A Gazelle ventures). But later Dell surpassed Compaq.
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.

The Dual Characteristics of Gazelle Ventures

Note the development characteristics of Gazelles compared with Turtles and Rockets.

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

Gazelles in the Growth stage resemble Rockets. When Gazelles are in the Growth stage, it is difficult for Rockets to beat Gazelle ventures.
% of New Ventures and % of New Jobs for Independent Ventures:

Rockets 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.

Gazelles 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 (80%+) 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.

Formal Business Plans and Rocket Ventures

The structure of Formal Business Planning is based on the premises that all ventures follow an High-Growth – Rocket Venture mode.
Three Ventures of Steve Jobs


- **Apple Computer Co.** In April 1976 Steve Jobs, Steve Wozniak and Ronald Wayne with Initial capital of $1200 founded Apple Computer Co. It was a Turtle Venture.

- **Apple Computer Inc.** In January 1977 Steve Jobs, Steve Wozniak, and Mike Markkula with an initial capital of $91,000 and a line of credit of $250,000, founded Apple Computer Inc. It became an exemplary Gazelle venture.

- **NeXT Inc.** In 1985 Steve Jobs left Apple Inc. and with an out-of-pocket investment of $7 million he founded NeXT Inc. In 1987 Ross Perot invested $20 million for 16% of NeXT’s stock. NeXT was a Rocket venture, and from the beginning behave like a mature business. For instance Jobs paid Paul Rand $100,000 to design NeXT’s logo.

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Financial Capital to Start a Rocket Venture

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.

- 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.”
- A long and deep survival stage needs more financial capital than a short and shallow survival stage.
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.
- A long and deep survival stage (Valley of Death) needs more financial capital, than a short and shallow survival stage.
- Gazelle ventures may start with modest amount of financial capital, but if they are successful they can grow fast in the Growth stage.

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

More information see “Financial Capital for Action Business Planning.”
Innovation: A Non-Linear Configuration

Major enterprise activities are categorized into 4 main groups:

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

Innovation (Development) 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 only to technology.

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The Innovation Map Model

- Technology often holds the most visible aspect of innovation and development. Technology, however, it is not necessarily always the most important aspect of innovation commercialization. Examples: Dell, Southwest Airlines, Wal-Mart, Virgin Group.
- Four aspects of innovation have nonlinear relationships with each other. They are distinct but are linked, like a map. The four groups of innovation can be perceived as four continents of a map. Organizational development often links them all.
- For more information, see the “Innovation Navigation Model”.

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Linking Action Business Planning and Formal Business Plans

- Entrepreneurs may need to link their Action Plans and Formal business plans, in case they plan to apply for business loans to 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.
Linking Action Business Planning and Formal Business Plans

Structures: ● Location Structure, ● Social Structure, ● Industrial Structure, ● Legal Structure
Unknown and Unexpected:

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.