

Don't make an *ss out of you or me

Rana K. Gupta
Director, Faculty Entrepreneurship

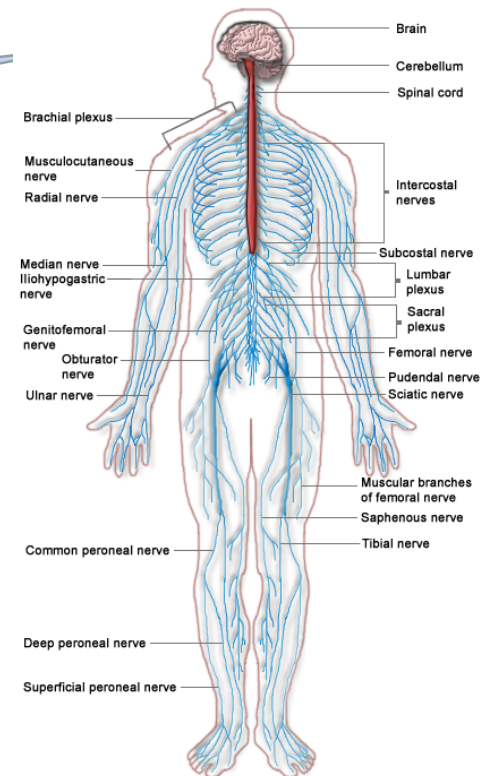
Assumptions are the nervous system of a plan

A change in one part of the plan will affect the other parts of the plan

ALL of your plans will be based on assumptions:

- Business
- Marketing
- Operations
- Sales
- Finance










The goal is to make those assumptions explicit



We learned early on about the Business Model Canvas.
What was the first step to filling this in?

The Business Model Canvas

Name: _____ Date: _____

Key Partners  • XXX Guess	Key Activities  • XXX Guess	Value Propositions  • XXX Guess	Customer Relationships  • XXX Guess	Customer Segments  • XXX Guess
Key Resources  • XXX Guess	Channels  • XXX Guess	Cost Structure  • XXX Guess	Revenue Streams  • XXX Guess	

From the BMC, we have to create plans

- Start with assumptions and validate them with customer interviews
- The BMC is a foundation with which we create other business documents
 - Marketing
 - Financials
 - Milestones
 - Strategy
 - Etc.

But let's back up

- ***WHY don't people want to state their assumptions?***

Could be wrong

Don't want to find out they're wrong

Insecurity

Putting science first – not comfortable with business topics

So why should we?

Assumptions can play three roles in a plan

- Transformational
- Forensic
- Instill confidence

Assumptions transform an opportunity into an investment

Opportunities are open-ended

Investments have a quantified risk
& reward



Assumptions have a forensic value

What happened here??!
What where these people
thinking??!

Looks like they're going in
all directions, AT ONCE!



Assumptions help you avoid this

Assumptions instill confidence in an entrepreneur

Transform your conversations with investors, customers, vendor, employees



From this

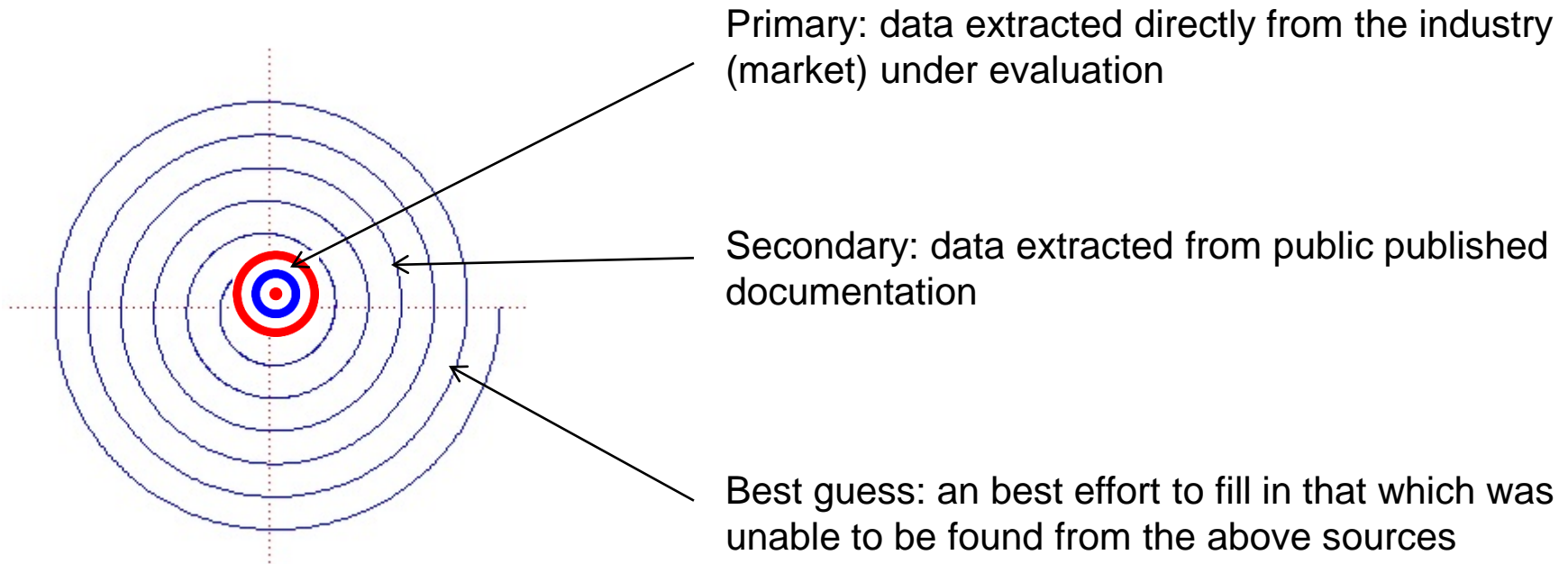


To this

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Gather the best data possible, but fill in all gaps, even with a best guess...

There are three levels of assumption data



...and then continue to refine the assumptions

1

Methods for developing assumptions are stylistic

- Arrange them however one likes
- Consider the:
 - Nature of the business and its structure
 - Audience
 - Nature of decisions that will result from them
- There's no one way to gather or structure or present assumptions
- And each business's assumptions can be quite different from another's

And there are many ways to approach and structure assumptions

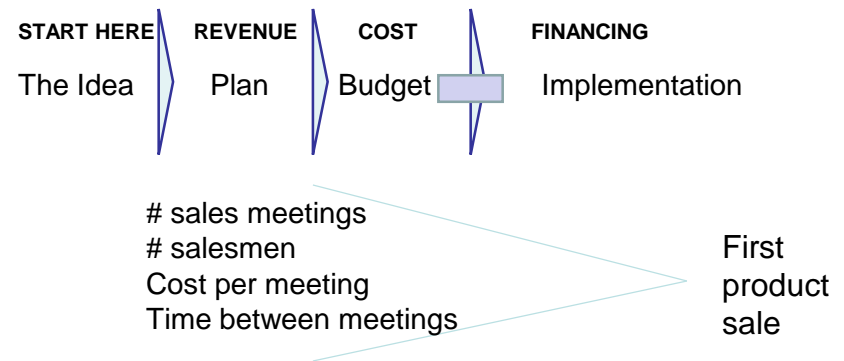
I. Components of a (financial) plan

- I. Revenue, cost, etc.

II. Work backward from an event

- I. Such as a sale

III. By revenue stream



Income Statement

	Prior 5 Quarter Results				Prior Annual Results				
	Q3FY06	Q4FY06	Q1FY07	Q2FY07	FY06	FY06	FY07	FY06	
Revenue	15,646	15,889	16,077	16,434	15,162	49,131	55,789	57,429	61,133
Percentage of Net Revenue:									
Gross margin	18.8%	18.6%	18.4%	17.2%	18.8%	18.4%	17.7%	18.6%	18.1%
Total operating expenses	13.2%	13.8%	12.8%	12.8%	12.1%	8.8%	8.6%	11.2%	10.8%
Operating income	5.3%	4.9%	5.6%	5.0%	6.7%	8.8%	7.9%	6.4%	6.8%
Net income	4.8%	4.2%	4.8%	3.7%	4.8%	6.1%	6.0%	4.6%	4.9%
Income tax rate	18.2%	23.0%	23.5%	26.4%	28.9%	31.3%	21.8%	22.8%	23.9%
EPS (Diluted)	\$ 0.24	\$ 0.21	\$ 0.38	\$ 0.31	\$ 0.27	\$ 1.18	\$ 1.47	\$ 1.14	\$ 1.21
WAS (Diluted)	2,266	2,201	2,040	1,999	1,997	2,068	2,449	2,271	2,247
Regular headcount	81,900	82,700	79,900	79,200	77,700	55,200	65,200	83,100	82,700
Temporary contractors	7,100	7,000	4,700	3,800	3,100	2,200	2,200	3,500	3,500
Total	89,000	89,700	84,600	83,000	80,800	57,400	67,400	86,600	86,200
Average total revenue per unit	\$ 1,900	\$ 1,980	\$ 1,970	\$ 1,920	\$ 1,464	\$ 1,550	\$ 1,500	\$ 1,910	\$ 1,940

* For Detailed Financials, please see Financial History tables on the Dell Investor Relations website, or SEC filings

Dell Investor Relations



Components of a financial plan

START HERE

- Objective
- Vision, strategic intent
- Can you sell it?
- Value proposition
- Can you build it?

ASSUMPTIONS

REVENUE

- Business model
- Customer(s)
- Addressable market
- Revenue forecast

ASSUMPTIONS

COST

- Vendors
- Expense forecast (COGS, Operating)
- Break even

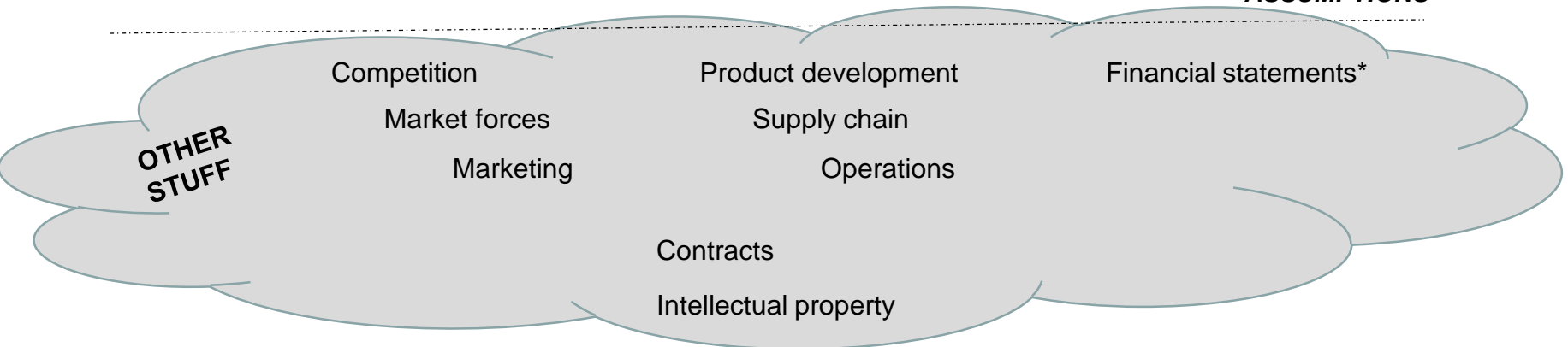
ASSUMPTIONS

FINANCING

- Milestones
- Amount required
- Use of funds
- Type of funds
- Long term plan or exit
- Capitalization table

ASSUMPTIONS

Cash table



* I included Financial statements in other stuff to make a point. What really matters is CASH

I. Components of a Financial Plan

Start here - assumptions

- Objective: **ALWAYS** start with **YOUR** objective
 - You may **NOT** decouple your life from your project
- From **DAY 1**
 - Start noting your assumptions about the idea, your involvement
 - Your mind is creating hundreds of assumptions as to how you'll do this. Write them down

I. Components of a financial plan

Revenue- assumptions

- Price
- Margins
- Sales cycle
- Pipeline

I. Components of a Financial Plan

Costs - assumptions

- Cost of Goods Sold
 - Raw materials
 - Labor
- Cost to make a sale
- The usual suspects
 - Rent
 - Utilities
 - Salaries
 - Travel
 - Services: accounting, legal, insurance
- And the list goes on and on

II. Work backward from an event, such as the first sale

- When will it happen
- Who will write the check
- Who will make the decision
- How many calls will it take
- How many meetings will it take
- Are there any distributors
- What are the terms of the sale
- What are all the costs that go into making that sale happen
 - Sales
 - Materials

III. By revenue stream

- Direct sales
- Distributed
- Products
- Services
- Licensed

Assumptions make your plan rigorous and defensible

Assumptions:

- Are the nervous system of a plan
 - One change here will effect the plan there
 - Assumptions allow you to test the sensitivity of your plan
- Confirm you what you know and don't know
- Convey the risk to other parties
- Challenge you to write a better plan