Don’t make an *ss out of you or me

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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

<table>
<thead>
<tr>
<th>Key Partners</th>
<th>Key Activities</th>
<th>Value Propositions</th>
<th>Customer Relationships</th>
<th>Customer Segments</th>
</tr>
</thead>
<tbody>
<tr>
<td>• xxx</td>
<td>• xxx</td>
<td>• xxx</td>
<td>• xxx</td>
<td>• xxx</td>
</tr>
</tbody>
</table>

Guess

Guess

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

*There are three levels of assumption data*

- **Primary:** data extracted directly from the industry (market) under evaluation
- **Secondary:** data extracted from public published documentation
- **Best guess:** an best effort to fill in that which was unable to be found from the above sources

…and then continue to refine the assumptions
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
Components of a financial plan

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

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

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

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

**OTHER STUFF**
- Competition
  - Market forces
  - Marketing
- Product development
  - Supply chain
  - Operations
- Contracts
- Intellectual property

* 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