

# Getting to Plan B

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# Let's Face an Uncomfortable Fact: Most New Ventures Fail

- Why...
- Most new businesses fail because the business model doesn't work!
  - Too little cash coming in...
  - Too much cash going out.

# Let's Take a Look at How Today's Start-up Process Works





# My Assertion: Today's Start-up Process, Like Ali G's Pitch, Is Seriously Flawed

- Driven by business plans based on naïve and unfounded assumptions
- All in support of a “Plan A” that rarely works
- And it's not the entrepreneur's fault...

# In the Words of One Angel Investor

*“I’ve made more money on  
Plan B than I ever made by  
sticking to Plan A!”*

- Why, then, the blood, sweat, and tears to craft the perfect business plan for ‘Plan A’?

# A Question for You...

*“Why will or won’t Ali G’s plan for an ice cream glove work?”*

# So, is there a solution to the flawed start-up process?

- A rigorous solution, perhaps, for getting from your Plan A that probably won't work
- To a better Plan B, a better business model, based on
  - *Real* data
  - For a *real* product or service
  - From *real* customers

# The Conventional Business Modeling Approach

- Turn on Excel
- Make silly “assumptions” (SWAGs) lacking in real evidence
- Tweak the cells to create a “hockey stick” pro forma
- Voila, you’ll soon be rich!

# So, how can you develop a business model that really stacks up?

- Turn off Excel and consider the five building blocks of every business model
  - What's your revenue model?
  - Your gross margin model?
  - Your operating model?
  - Your working capital model?
  - And your investment model.

# A Process to Get You There

- The story of Apple's transformation...

# The Key Steps in Apple's Journey

- Analogs
- Antilogs
- Leaps of faith
- Hypotheses to rigorously test the most crucial leaps of faith

# Steve Jobs on Analogues and Antilogues

*“Picasso had a saying: he said good artists copy, great artists steal... and we have always been shameless about stealing great ideas.”*

# The First Building Block: Your Revenue Model

- Plan A → Plan B for two guys who wanted to enter the fishing industry...

# Another Building Block: Your Gross Margin Model

- A Plan A that worked
- The eBay story

# The Third Building Block: Your Operating Model

- The Ryanair story...

# An Overlooked Building Block: Your Working Capital Model

- The Costco story...

# Lest We Forget: Your Investment Model

- Two vastly different business models for VoIP telecom technology
- Skype vs. Vonage

# What Do All of these Examples Have in Common?

- All (except eBay) built their eventual success not on Plan A, but on Plan B
- For each of them, their breakthrough was a business model whose strength was anchored in just *one* of the five business model elements

# On Which Elements Did Each Break Through?

- Apple's and Google's revenue models
- eBay's gross margin model
- Ryanair's operating model
- Costco's working capital model
- Skype's investment model
- On which element can *you* break through to a better business model?

# Putting Process and Framework Together: The Business Model Grid

Business Model Element	Analogs	Antilogs	Leaps of Faith	Hypotheses
Revenue Model	<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Gross Margin Model	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>		
Operating Model	<input checked="" type="checkbox"/>			
Working Capital Model	<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Investment Model	<input checked="" type="checkbox"/>			

# Can this Work for You?

## The Proof of the Pudding

- Google
- Starbucks
- PayPal
- None stuck to their original business model
- All became household names by abandoning Plan A and getting to Plan B

# Lots More Examples, in Start-ups and More

- China's Shanda: Revenue model
- Japan's Toyota: Gross margin model
- India's Oberoi Hotels: Operating model
- USA's Dow Jones: Working capital model
- Spain's Zara: Multi-dimensional model
- And many more, in visionary companies of all sizes and kinds

# A Closing Thought on Why Business Plans Don't Deliver

- Most of the time, Plan A doesn't work.  
Why?
- There's simply too much that you simply don't know
  - Some things you *know* you don't know
  - Others you *don't know* you don't know

# A Tell-Tale Phrase in Too Many Business Plans

*“We believe that...”*

# There Is a Solution...

- Stop working on your business *plan* for Plan A
- And get on with your *business*, your journey to a more vibrant Plan B
  - Find some analogs and antilogs
  - Identify your most crucial leaps of faith and some hypotheses to examine them
  - Build a dashboard to guide your journey
  - Get out there and learn

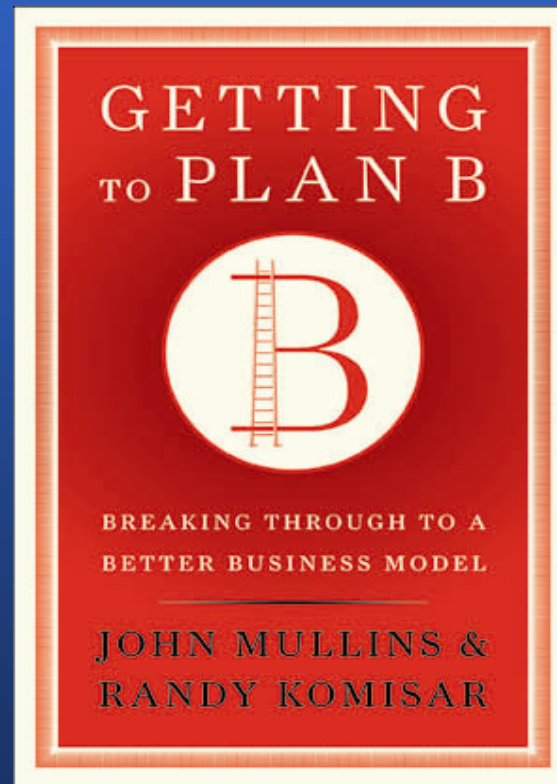
# But Don't Take it Just from Me

*“What matters most is not the quality of the initial business plan, but instead the ability of the team to iterate successive business plans as a means to finding what works. The trick is to experiment quickly but intelligently, and with discipline.”*

Dennis Whittle

Founder and CEO: GlobalGiving

# For the Rest of the Story, in Bookstores Now...



# Questions?

[www.getting-to-plan-b.com](http://www.getting-to-plan-b.com)