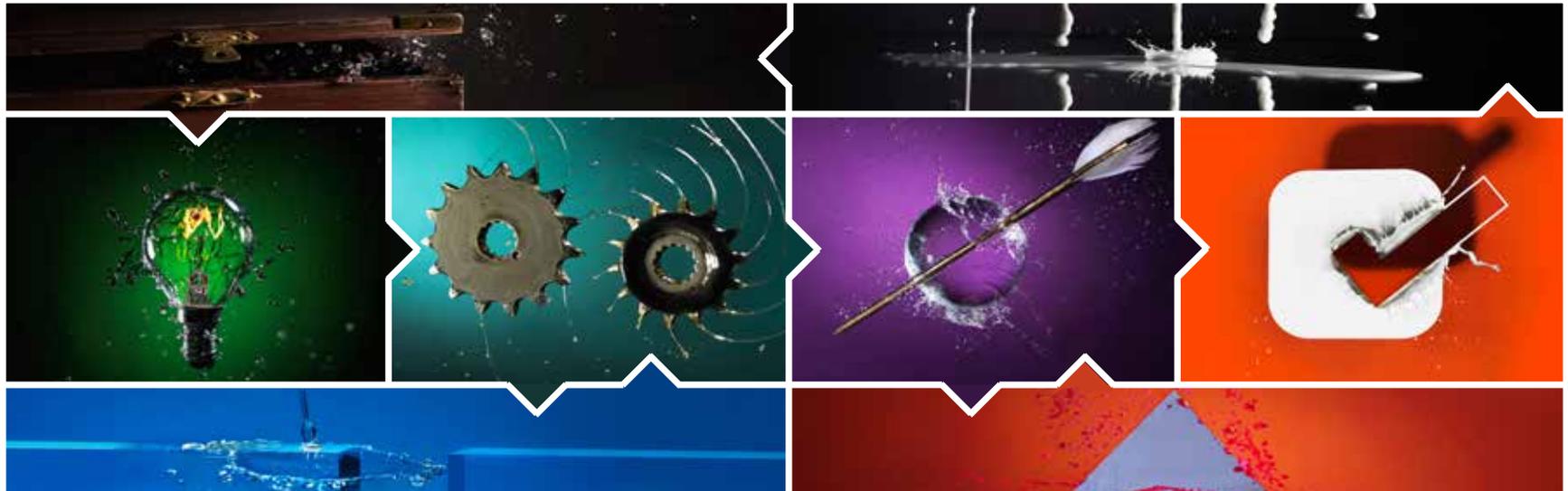


LEAN BUSINESS PLANNING

Do you want to start a company, improve the one you have - or just play around with some ideas?



«Life is what happens to you while you're busy making other plans.» Contrary to public belief, this was not said by John Lennon, but by American author and cartoonist Allen Saunders.

Regardless of its origin, this statement highlights a paradox that can easily be applied to business planning. A plan has no value if it can't be adapted to shifting circumstances. Things very rarely go exactly according to plan. Does that mean we should give up on planning altogether?

In addition, most plans are created for the wrong reasons altogether. People often create business plans to express a need for external financing or support for their business. After they are created, they are left at the bottom of a desk drawer. Why is this?

1 WHY DO BUSINESS PLANS FAIL?

The business plan has gone from being the cornerstone of all business development to being heavily criticised over the last couple of years. We think this is well deserved. A traditional business plan is easily 100 pages, covers a three-year period and costs the entrepreneur a significant amount of time and money. In a traditional business plan, the table of contents may look something like figure 1:

One problem with this type of plan is that it makes predictions that are almost impossible to foresee. If you could predict the financial development of any publicly listed company, you would be a stock market millionaire. Why would it be easier to make a three year forecast for a startup that does not yet have any products or customers?

An even bigger problem is that many entrepreneurs follow these plans uncritically, without asking questions like: Has the market changed? Did the product turn out the way we thought it would?

The «Lean Startup» movement (Steve Blank, 2005 and Eric Ries, 2001) claims that the ability to make adaptations and changes to your plan is much more important than the quality of the first version of the plan.



Figure 1: Conventional Business Plan

The problem is that business plan critics do not offer an alternative method. Even if the conventional business plan does not work, you still need some kind of plan. You would not even go to the grocery store without having a plan for you shopping. Instead, you decide what you will have for dinner, and make a list of everything you need to buy. Some additional impulse purchases tend to find their way into the shopping trolley, which is normal. Everything does not always go according to plan, but planning is still important.

The five most important problems with a traditional business plans are:

1.1 The planning period is too long

The simplest way to improve the business plan is to make the planning period shorter. Instead of guessing what might happen three years from now, the focus should be on the next few months. We suggest making a plan for the next three months, and then add a new month at each month's end. We call this a rolling three-month plan. Working in this way makes it a lot easier to make adjustments based on what we learn during the project.

The justification for longer plan periods is often that bankers and investors want a forecast that shows when they will get their money back. Unfortunately, these forecasts are often based on failing preconditions. The difference between ambitions and reality can create conflicts between you as an entrepreneur and your financial partners. In addition, you may have to explain why changes in business conditions make it smart to diverge from the original plan.

1.2 You do not write the plan for yourself

Unfortunately, most businesses do not create their plan before they need to negotiate with banks, investors or public authority support agencies. This creates two major problems: first, the business plan is usually a set of arguments for the future success of the company. The plan is simply far too optimistic and lacks necessary skepticism and risk assessment.

The other major problem is that these external business plans are useless as a tool for managing the company. Implementation of the plan is poorly described, so most companies end up without a properly functioning internal

plan. Nothing in the plan translates visions and ideas into daily tasks, which makes it difficult to follow up and assess development.

We believe that you should primarily plan for internal use. However, this doesn't mean that it isn't important to communicate your plans to external interests. Banks, potential investors and public authorities will expect you to have a clear idea of what the future will bring. However, we believe that all of these institutions would rather have an honest and realistic description of your business - not a one-sided argument for your guaranteed success.

1.3 There is no common thread

Another important element in a business plan is that your company's everyday activities should be linked to its long-term strategies. Unfortunately, very few entrepreneurs do this. Strategy documents are often drawn up by senior management, only to be left languishing in a desk drawer. Each department sets its own objectives and tasks, and the financial manager makes the forecast. Often none of these planning activities are coordinated with each other.

This method not only produces poor planning documents, but leads to a loss in the planning process itself. «Plans are nothing; planning is everything» claimed Dwight D. Eisenhower during the planning of the D-Day invasion. Involve as many employees as possible in formulating everything from the overall vision to the daily activities in your company to create the most solid platform for reaching goals together. This is an opportunity that many businesses miss.

1.4 Unclear responsibilities

It is harder to manage a business where things frequently change than a more stable company. Coordinating different functions becomes more complex when the strategies, objectives and tasks change often.

In this situation, a clear division of responsibility is very important. Thus, we introduce the «Business Developer». The Business Developer has the overall responsibility for bringing about innovation and change in the company, including managing the business plan. In a smaller company, the General Manager and/or owner of the company has this responsibility. In larger companies, it may be delegated to another person, or even to a hired consultant. In any case, it is important that the Business Developer is given a clear mandate from senior management.

1.5 The world is not static

The final important point is that your planning must undergo continual development. The one thing we know about growth companies is that it is difficult to predict the future; there will be both positive and negative deviations. Perhaps you will spend more time on developing your product than you thought? Or you might sell more than you had anticipated? In any case, it is important that you adapt to the new reality. We live in a time characterised by high tempo and rapid changes. You may have to respond to delays in development time by engaging a new developer or informing customers that the new version of the product will be postponed. In the worst case you will have to obtain extra financing to progress, while surprisingly good sales may allow greater investment in delivery capacity than you originally planned.

Therefore we do not recommend a static approach to business planning. When the preconditions for your plan change, you should make adjustments. If your ideas or business models are no longer viable, you need to change them. Objectives should be constantly improved, and the tasks implemented only if they still make sense after these changes. The more you experiment, measure and learn, the more relevant your plan will be.

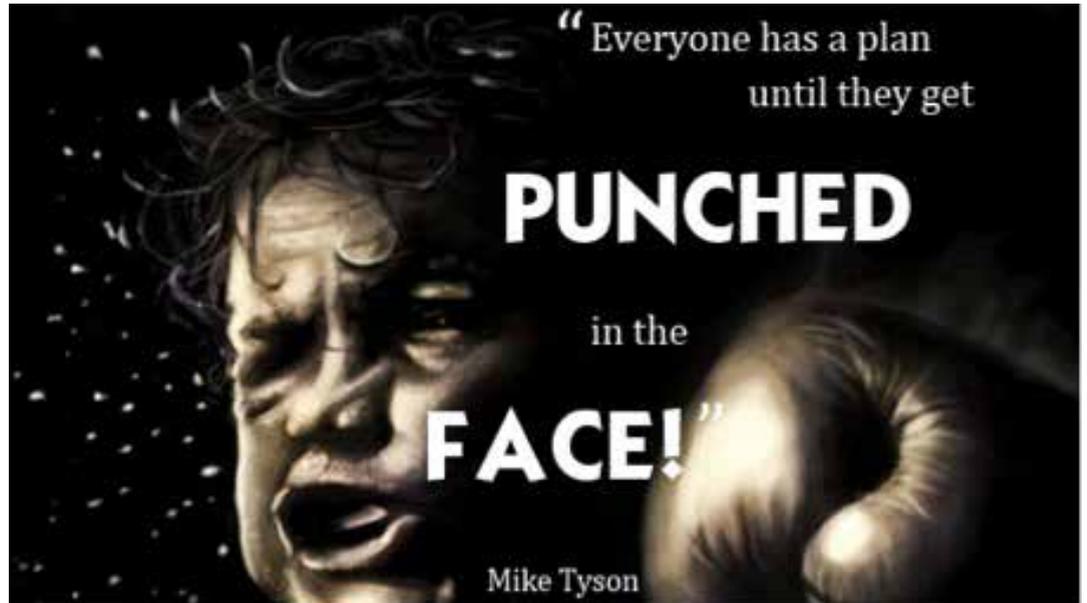


Figure 2: Mike Tyson

2 AN ALTERNATIVE METHOD

The purpose of this book is to offer a better alternative to a conventional business plan. It is suitable for all companies with ambitions for growth - companies in the start-up phase, and also established firms that wish to revise their strategies. It is especially relevant for managers, owners and board members who wish to play an active role in the business development process.

Business development typically consists of four groups of activities that should be integrated, but usually are not:



Figure 3: Phases of business planning

First you must find out what «resources» you have at your disposal. This can include everything from money and employees to patents and customer contracts. An older company will probably have more resources than a recently started one.

Then you must choose a «strategy.» A common assumption is that a strategy should remain as unchanged as possible over a long period, preferably three to five years.

In today's world, development moves forward at a steadily increasing tempo, and requires frequent adjustments in direction and progress. The time that elapsed from the day Steve Jobs first presented the vision of a portable mp3 music player until the first iPod was on store shelves was nine months. In that time, Apple managed to complete the design of the iPod, sign contracts with subcontractors, create a plan for manufacturing of parts, physically manufacture millions of units, market the product and distribute them to stores. Apple also founded the digital music store iTunes - perhaps the most important element of the whole innovation.

If you ask people who can achieve such things to tell you what the world will be like in five years, they may well laugh and tell you to go and watch the latest science-fiction movie. Five-year strategy plans, as you can imagine, are now all but obsolete.

We will simply define strategy as the combination of business idea, business model and gap analysis.

Objectives, task planning and risk management build the «project management» part of the business development method. You should describe all these things for the next three months. Every time the preconditions change, you can adjust the canvases. Every month, you can add a new month to the end of the development period. In this way you will work with continuous business development instead of in a stop-start manner.

The «overview» is where you can constantly monitor your business. Forecasts for profit and cash flow are important parts of the overview. In addition, you can measure the progress for your objectives and tasks, and how your risks are developing. This progress will create new resources, which means that you have a continuous circle where you adapt and improve all elements of your business. The complete Lean Business model looks like this:



Figure 4: The Lean Business Model

To illustrate the use of the model throughout the book, we have invented a small company. The company is called «Powerboard Ltd.», and we pretend it was started a little more than a year ago by good friends and skateboarding enthusiasts John and Mark. John used to work as an engineer in McLaren's engine department. Mark has a business background and some experience from entrepreneurial projects.

The two friends have a vision of making the world's first truly effective electrically powered longboard. We meet them when they have set up shop in their native Hoxton, London and have just hired marketing expert Christy.

2.1 Resources

We will address the company's current situation in two parts. You must outline the expectations of your company's owners and state their instructions. Why did the owners start the company? What vision, values and objectives will your company encompass? Which decisions will the owners never approve? How do the owners want to be informed about these issues?

If you are the founder and only owner of the company, these are interesting questions to ask yourself. If your company has multiple partners, it is even more important that you discuss these issues. What happens if you want to sell the company when your business partner does not? If you have passive owners that do not work for the company, the owner's instructions will be an important tool for the management of the company.

For our friends in Powerboard, creating the owner's instructions is quite straightforward. John and Mark own the company 50-50, and they share the same values and visions for it. They want to be independent, and they are more motivated by creating a great company than by financial rewards. The first fast draft of their owner instructions looks like this:

<p>WHY DID THE OWNERS START THE COMPANY?</p> <p>hate having a boss !</p> <p>passionate about long-boarding</p>	<p>WHAT ARE THE OWNERS' VALUES?</p> <p>environmentalism</p> <p>entrepreneurship</p>	<p>WHAT IS THE COMPANY'S VISION?</p> <p>worlds first and best electric longboard maker</p>
<p>WHAT ARE THE OWNERS' OBJECTIVES?</p> <p>making a comfortable living from this</p> <p>building a world-leading business</p> <p>retiring at 50</p>	<p>WHAT RESTRICTIONS DO THE OWNERS SET?</p> <p>always keep 51% ownership between us</p>	<p>HOW DO THE OWNERS WANT TO BE INFORMED?</p> <p>constantly through the overview board</p>

Figure 5: The Owner's Instructions

Next, you need to make an inventory of your relevant assets. Do you have employees with unique competences? Which products have you developed or launched? How is your company organised? Do you have relevant customer relationships and partners? Do you have products under production or own any particularly valuable technology? Do you have buildings, equipment or machines that are useful for your company?

EMPLOYEES	PARTNERS AND ADVISORS	PATENTS AND IPR	PRODUCTS AND SERVICES
john	boardmotors	trademark	longboard beta
mark	loaded boards	adapted truck technology	
christy	glob-tech batteries		
	grant thornton		
CASH AND CREDIT	BUILDINGS AND RENTAL CONTRACTS	MACHINES AND EQUIPMENT	CUSTOMER CONTRACTS
operating account	hoxton road 1	ford f-100	consultancy loaded boards
		lab equipment	

Figure 6: Resources

In this figure, we show the current resources for Powerboard. The company has three employees with a combined salary of £ 30,000 a month and a few industrial partners. They have a patent relating to the power exchange between the electric motor and the back wheels of the longboard, and they built a beta version of the board. Their assets consist of a bank account with a little less than £ 100,000, a rented office, an old truck and some machinery. Their only existing customer contract is a six-month consultancy deal where John helps Loaded boards with some technical issues. This provides £ 10,000 of revenue each month.

2.2 Strategy

Building on your resources, you can develop the first draft of a strategy for your business. To accomplish this, find the business ideas and business models best suited for your business. Finally, find the deviation or gap between the present situation and your business goals.

Business Idea

The business idea explains what the company will accomplish and asks three questions: what problem will you solve, who has this problem and how are you better suited to solve this problem than your competitors?

It is important to involve the whole organisation when defining the business idea. Allocate sufficient time to allow a good working session, and get as many relevant employees as possible to participate. Then test the business idea to make sure the problem you want to solve actually exists. You can work with one or many business ideas, and postpone business ideas if you are not sure you should give priority to them.

Powerboard has determined that there are two possible paths for positioning their company. They can make a product with an electric motor to enable longboarders to go on longer trips, by giving them a boost when they are going uphill. The alternative is to make a product that gives commuters a lightweight vehicle to travel the last distance between the train station and their office.

After a long discussion, they decide on the first idea, and put the commuter idea on hold.

all ideas	longboarders	commuters
WHAT MAKES YOU UNIQUE?	WHAT PROBLEM WILL YOU SOLVE?	WHO WILL HAVE THIS PROBLEM?
longboard competence	lack of range	hard-core longboarders
electric vehicle competence		

Figure 7: Business Idea: Longboarders

all ideas	longboarders	commuters
WHAT MAKES YOU UNIQUE?	WHAT PROBLEM WILL YOU SOLVE?	WHO WILL HAVE THIS PROBLEM?
longboard competence	train to office transport	young commuting professionals
electric vehicle competence		

Figure 8: Business Idea: Commuters

All businesses should regularly assess their business idea. Even established companies that already have both products and customers should critically review their business idea from time to time. Can it be improved? Have the resources changed? Have external changes created opportunities to pursue?

Business model

While the business idea describes what the company will do, the business model describes how it intends to accomplish it. When you are working on each business idea, try to see through the eyes of the customer, and then change to your own perspective when developing the associated business model. For example, the concept of «what problem will you solve?» in the business idea should be considered from the customer’s viewpoint. Then, move on to examine «what will be your unique value proposition» and «what will be the solution to the problem?» in the business model. In this way, you define how your company will be best able to meet customers’ needs.

The business model is comprised of responses to six simple, but fundamental questions. The answers to the six questions represent your business model.

longboarders		commuters
WHAT WILL MAKE YOU UNIQUE? longboard competence electric vehicle competence	WHAT PROBLEM WILL YOU SOLVE? lack of range	WHO WILL HAVE THIS PROBLEM? hard-core longboarders
WHO CAN HELP YOU? business angel british longboard society	WHAT IS YOUR UNIQUE VALUE PROPOSITION? 25 miles electric extension of your range	WHO WILL BE YOUR FIRST CUSTOMERS? british longboard club
HOW WILL YOU SELL? skateboard stores own webstore		
HOW WILL YOU CHARGE? one-off price for board yearly support contract	WHAT WILL BE YOUR PRODUCT? the electric longboard	

Figure 9: Business Model

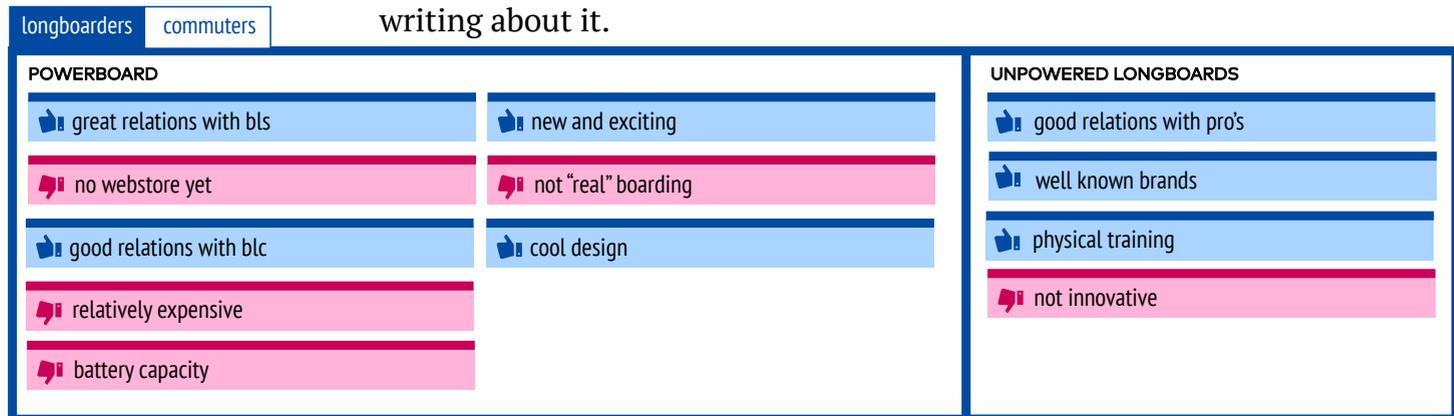
With your business idea as a starting point, you should once more gather your key employees for a work session to define the business model. If you consider it appropriate, bring in board members or other external persons to contribute. After revising and improving the business model until you are satisfied, you will have an excellent starting point. Then test whether your product really solves the customer's problem, and that the other business model elements work as expected.

Powerboard expands the business idea aimed at longboarders. They decide to make some test versions of the board, and sell them for £ 800 each to members of the British Longboard Club. Their unique value proposition is a 25 mile electrically powered extension to the travel distance. They will create one product, which will be the basic board model. When finished, the boards will be sold through their own web site and select skateboard stores for a fixed price plus a yearly maintenance fee. The two most important partners are expected to be the business angel they expect to engage with, and British Longboard Society.

Gaps

Now you have reached a point where you can create a description of the gaps. You have defined a set of business ideas and business models. This means that you know which market you should be in, who you will compete with, which alliance partners to prioritise, and how you will sell and receive payment for your products. When you create the gap description, take the business idea and the business model as a starting point. For each point above, describe the current situation in the areas that are still relevant. For example, if you decide to phase out a product, it is not worth spending time writing about it.

Figure 10: Gaps



Compare your company's position with the companies you believe will be your most significant competitors. This will help you evaluate your current accomplishments in relation to your business idea and model. This information forms the starting point for the Objective Canvas. When you compare yourself with your competitors, you may see weaknesses in your business idea or business model. If so, you must go back and change it. Allow the people around you to contribute. Ask them to be critical and to actively look for faults. You must continue with this process until you are satisfied with the results.

The Powerboard team thinks their greatest strength lies in their innovative new design and in the good relations they have with opinion leading longboarders in the UK. Their greatest weakness are that the boards will be quite expensive to produce, and some hardcore longboarders may think that electric boarding is «uncool». Also, there are still improvements to make in the battery capacity and the web store.

Powerboard groups their competition together as «unpowered longboards». These boards are traditional, well known and very well established among the professionals. Customers also will argue that traditional boards are better for physical exercise than an electric board. The Powerboard will need to focus on being a new and innovative addition to a traditional board, suited for longer trips. They can argue that the Powerboard will also allow users to get physical exercise, but will make it easier to get up hills where it would be difficult to skate anyway.

2.3 Project management

After you know what strategy you will follow, you need a project plan to implement it. The project plan consists of the objectives you find relevant for the period and the tasks that must be accomplished to fulfill the objectives. You should also acknowledge which threats and opportunities may incur. (We label these risks.)

Objectives

Starting with your prioritised and tested business ideas and business model, you can create objectives. If your company is large enough to have a management group (for example CEO, Sales Manager, R&D Manager, Finance Manager), you should get assistance from them. You then discard the least important objectives, stage out the others and decide which objectives will be labeled milestones, numbers or revenues. You should present objectives to your employees – preferably at a general meeting if possible.

Powerboard has only four main objectives for the next three-month period. They want to hire a new salesman, who has an even stronger relationship with the skateboarding community than John. They want to produce three test generations of their product, with 15 copies of each version. Then they want to sell these boards to members of the British Longboard Club, to generate £ 30,000 each month.

The feedback they will get from these test users will be vital in the improvements they make for the next version. Finally, they want to raise £ 150,000 from a business angel who can provide money and expertise.

COMPETENCE	PRODUCTS AND SERVICES	SALES AND MARKETING	FINANCIALS
new salesman	test production copies	test sales	crowdfunding
	version 1		bridge financing
	version 2		
	version 3		

OBJECTIVE PR MONTH			ACTUALS		FORECAST			
OBJECTIVE NAME	CATEGORY		FEBRUARY	MARCH	MARCH	APRIL	MAY	COGS %
new salesman	 milestone							
test production copies	 number			15	15	30		
version 1					15			
version 2						15		
version 3						15		
testsales	 one-off sales				10 000	10 000	10 000	
bridge financing	 funding						150 000	

Figure 11: Objectives

Risk

As Business Development Manager you should draw up a list of things that are likely to go differently than planned. In this chapter, we will focus on events that occur due to external influences outside your control.

In this section you should include things that can go better than expected, and things that may not go as well as expected. Assess these from low to

CONSEQUENCE	HIGH	sub-vendors don't deliver	
	MEDIUM	sponsorship deal loaded boards	venture capital breakdown
	LOW	MEDIUM	HIGH
		PROBABILITY	

Figure 12: Risk

high, taking into account the probability that they will occur, and the degree of advantage or disadvantage if they should occur. For those with the highest score, set up a series of initiatives that will reduce the likelihood that negative events will occur, and increase the chances that positive events will occur. When you get to the «tasks» section, you must decide what to do if the events actually occur.

Powerboard finds only three risks for now. The venture capital market could break down in these post credit-crunch times. The other external risk is that their sub-vendors could fail to deliver enough engines, trucks and boards. There is also an opportunity: Loaded Boards may want to offer their expertise to help the project.

Tasks

Now you have a set of objectives, but these objectives are of little value if you do not know how to achieve them. This is where the task plan comes in.

It specifies all the necessary activities and who is responsible for them. You may also need to define tasks to manage risks and gaps. All employees should be given the chance to define the tasks they feel they should manage. Ask them to make a list of the tasks they should do to make the company reach each of its objectives. Then you should coordinate the tasks so that dependencies between them are taken into consideration. Part of this coordination will be to reduce the number of milestones to a realistic level. The first draft does not need to be perfect! You can remove, change or add tasks at any time. A task with high priority is categorised as active. The others wait in the queue. You should also estimate the cost of each task.

Figure 13: Tasks

QUEUE	MARCH	DONE
 assemble test version # 2	 finalize investment memorandum	 office hoxton
 final production partner for the engine	 assemble/test 15 test version # 1	REAL COST 4 000
 sign contract salesman	 test interview british longboard club	 employment agreement christy
 functional test test version # 2	APRIL	 design test version # 1
 advertisement salesman	 finalize test sales #1 british longboard club	 source parts test version # 1
 summary test market results	 speed dating business angels	
 analyze feedback from customers, test version # 1	MONTHLY TASKS	
 list possible distribution partners	 technical status summary meeting	
 contract business angel	 salaries	
 train new salesman	 management meeting	

Powerboard creates the tasks that are necessary to reach the chosen objectives. It becomes clear that John will be responsible for most of the technical tasks. Mark will manage the tasks related to the financial objectives and general management, while Christy will sell the boards, gather feedback to help improve the product, and find a place in the market for it.

2.4 Overview

The description of your revenues in the objective section and the costs in the task section is all the information you need to forecast the financials for the plan period.

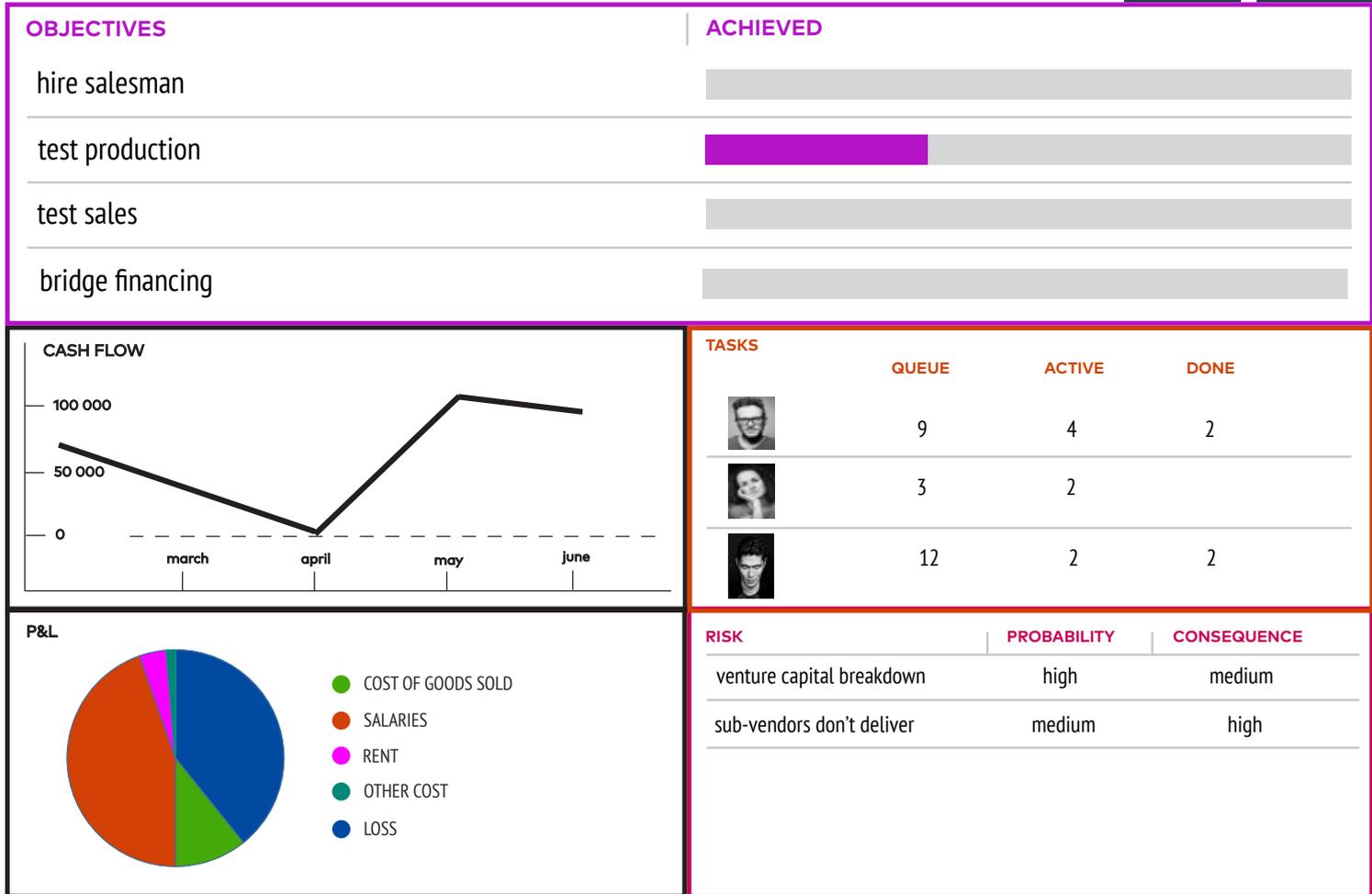
You will probably have to change the objectives and tasks to align with new information and experiences. If you sell less than expected, you may have to cut costs. If your revenues exceed expectations, you may want to invest more in recruitment, sales, marketing and development.

To make these adaptations, you will need to continually update the status of your objectives and tasks at all times. You should also follow up on your opportunities and any threats you face, your profit & loss situation, and how much money you will have in your bank account over the next few weeks. You do not have to focus on the deviation between the results you actually achieve and the ones you budgeted with at the start of the period. Instead, you should focus on the forecast for the whole plan period. You should combine the actual figures for the months lying behind you with the best estimate for the months ahead. The important thing is that you make

your decisions based on the most accurate information you have available at any time.

Figure 14: Overview

START February STOP June



The first Overview shows that Powerboard finalised one of the three test generations. Apart from that, they have not achieved any of the objectives.

The bank account will be empty in May. The company needs to raise money before that happens. If necessary, John and Mark can delay their salary a bit if the financing gets delayed. Salary is by far the highest cost in the period, over £ 160,000.

The task overview shows quite a high activity level, particularly for Mark and John. They are confident that they will be able to manage, though. The risks do not worry them too much either. They have confidence in the suppliers, and have signals from investors that the financing should be approved.

You can find a more thorough description of the methodology in the “Lean Business Planning” book. To complement the book, we have developed an online tool called “Lean Business Planner”. At the end of each chapter you will find advice on how to use this tool.

3 THE LEAN BUSINESS PLANNER

The Lean Business Planner will help you make a modern business plan as outlined in the book. However, you do not have to use the tool to benefit from the Lean Business method. Many people use the Lean Business principles together with other IT tools. Some people even use pen and paper to create a Lean Business Plan.

Of course, Lean Business Planner doesn't automatically make the right strategic choices for your organisation, but, it can help you to create structure and collaboration in your planning process. You can begin making a strategy, and make a project plan based on it. The system will give you feedback on your progress at all times. You can test the choices you make, and if you need to change any information, you can return to the previous step at any time and make changes. In addition, you will have a brief summary of your plan. This will update itself as you make changes.

The Lean Business method and Lean Business Planner helps you to find a strategy for your project, it helps you to manage and lead your project, and it helps you to manage the economy of your project. Monitoring all these three things simultaneously makes it much easier to adapt your plan to changing circumstances. The method is excellent for developing, improving or growing your business. If you want to continue exactly the same way you have always done, using the method might be unnecessary.

You own all the information you enter into the system, and it will only be available to you. The data is protected in accordance with industry standards in the same way as other systems that you use, such as Internet banking. However, it is our strong belief that planning is optimal when several people participate, and you can easily grant access to colleagues or board members. It can also be useful to receive advice from someone with more experience and the appropriate skills in the process. You can also contact certified consultants for help.

The Lean Business Planner is available at: www.leanbusinessplanner.com