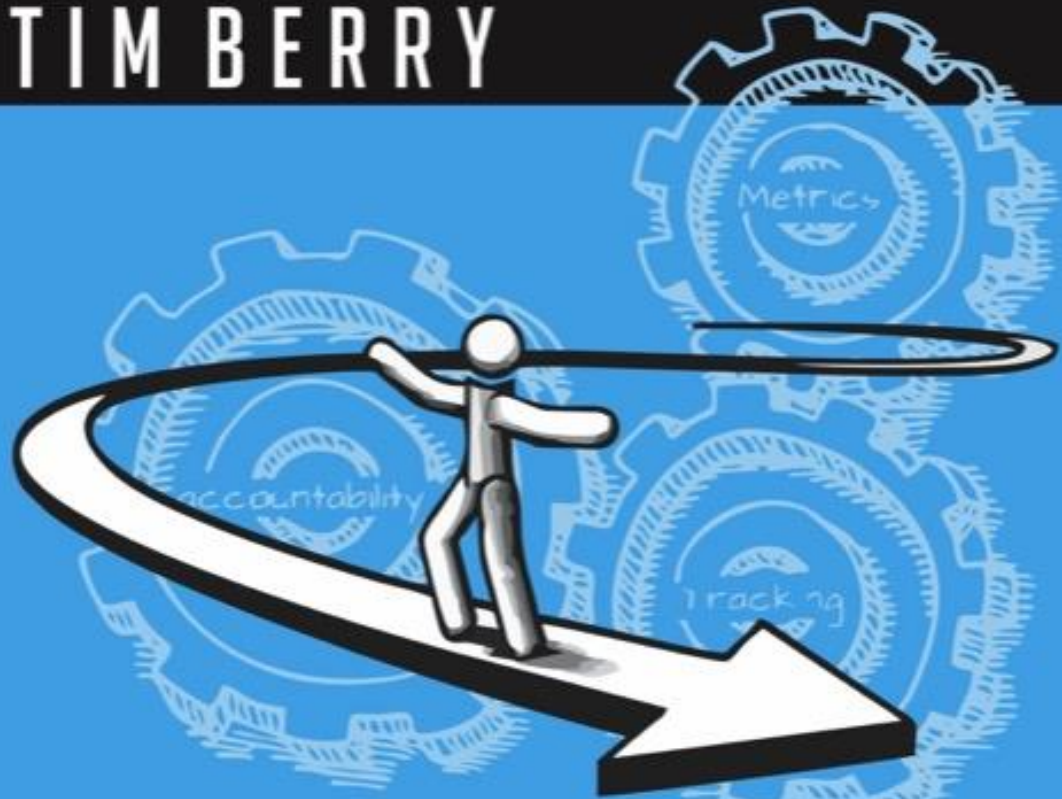


TIM BERRY



LEAN

BUSINESS PLANNING

FASTER, EASIER, BETTER BUSINESS PLANNING

LEAN BUSINESS PLANNING

With LivePlan

By

Tim Berry

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About the Author

Tim Berry is the best-known and most-respected expert on business planning in the world. Do a Google search for “business plan expert” and you’ll find Tim Berry listed first in the organic, unpaid results. Business writers have called him “the business plan guru” and “the Obi-wan Kenobi of business planning,” in print, in major media.



Berry founded Palo Alto Software and built it on his own, without outside investment, to multi-million-dollar sales, profits, and cash flow independence. He’s a leader in a local group of angel investors. He did business planning for Borland International, a software company that went public in less than four years; for various divisions of Apple Computer for 12 years; and for a collection of clients, large and small for decades. He’s the author of *The Plan as You Go Business Plan*, published by Entrepreneur Press, and half a dozen other books published by Entrepreneur, McGraw-Hill, Dow Jones-Irwin, and others. Entrepreneur-celebrity Guy Kawasaki chose to interview Berry as his expert on business planning, and he’s been writing on that topic for more than a decade at Entrepreneur, SBA.gov, and other major media.

He has a Stanford MBA degree, an MA in Journalism with honors from the University of Oregon, and a BA *magna cum laude* from the University of Notre Dame.

There’s more information about him at timberry.com.

Why Lean Planning

“The plan is useless. But planning is essential.”

~Dwight D. Eisenhower



What do you want from your business? Wealth? Fame? A better living? Maybe you want more independence or time off to coach your kids' soccer team. With this book I'm going to help you get what you want. I will show you how focus, set priorities and expectations, and track results to help you get what you want from your business. I promise.

Don't sweat the big business plan. Skip the descriptions and explanations. Just do a lean plan. It will help you get where you are going without bogging you down. It's fast, easy, and practical.

Who doesn't like planning a vacation? You decide where you're going to go, look at the activities, attractions, restaurants, hotels, and the route. When I was a kid, we'd get together before our big backpacking trips and plan routes, food, and what to pack. As an adult, I join my wife in planning our family vacations. Planning is part of the fun.

And planning your own business? That's fun too. Set your strategy and the tactics to execute it. Figure out pricing, marketing, and product. Dream and tell stories, and then add what it takes to make them come true. It's making things happen. It's going from a vague, daunting, hard-to-manage uncertainty to specific educated guesses, linked together, so you can address them. Get things done.

This is the LivePlan-Specific version

“LivePlan has reinvented business planning. It's the only tool that helps entrepreneurs track their progress with a unique dashboard specifically designed for small business.”

~John Jantsch

This is a special version of this book, tailored for use with LivePlan, the online tool for planning, tracking, and managing a small business, developed by Palo Alto Software. LivePlan is an excellent platform for your lean planning. I'm founder and chairman of Palo Alto Software and I'm proud of LivePlan and how well it works with my vision of lean business planning.

LivePlan is ideal for doing your lean business plan. Use its pitch page as a strategy summary. Use its easily modifiable outline to manage your lists of tactics and concrete specifics. Live Plan simplifies the financials to give you both easy, guided inputs, and outputs that automatically interpret your assumptions to create formal financial projections and estimate cash flow.

If you don't already have an account at LivePlan, you can sign up at www.liveplan.com. And if you would like the main (generic) version, it is available for sale in bookstores, at amazon.com, and elsewhere. You can find more information about that book at leanplan.com.

One-Page Summary

About Lean Planning

[Lean business](#) is a better way to do anything in business. Take small steps, look back, track results, see what works, and change often. [Lean business planning](#) is a way to optimize your business with focus, specific steps, tracking results, and changing quickly. The [principles of lean business planning](#) are to do only what you need, track and review often, expect change, develop accountability, and remember it's planning, not accounting.

Do a Lean Business Plan

Section 2, [Lean Business Planning Step by Step](#), is all about how to do a lean business plan. First you [define your strategy](#), such as focus on specific target markets and business offerings to match. Then you [set execution](#), such as pricing, messaging, and location, to execute strategy. Then you develop [concrete specifics](#), including dates and deadlines. And you also [do the essential business numbers](#), including sales forecast, expense budget, and cash flow.

Then Track, Review, Revise, Manage

The point isn't the plan, but the business you get from it. Do the plan and then adopt an ongoing process of run-review-revise-repeat. When do you revise? When do you stay the course? That's in Section 3, [Keeping it Live](#).

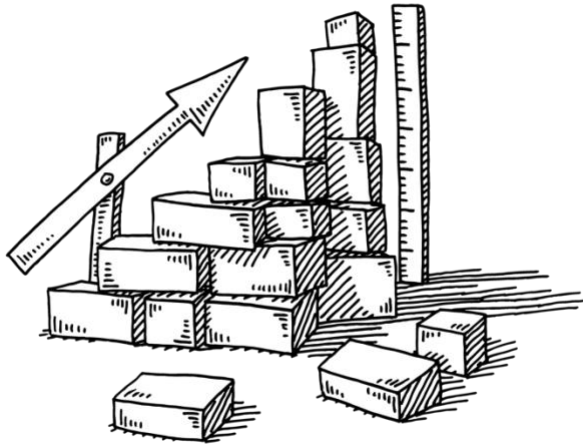
Appendices

Appendix A shows how to calculate [starting costs](#). Appendix B covers [sharing your plan](#) with [summaries](#), doing [your business pitch](#), and doing an [elevator speech](#). Appendix C is about [planning for angel investment](#). [Appendix D](#) includes a complete sample lean business plan. [Appendix E](#) is a second complete sample lean business plan.

Section 1: Fundamentals

Note: Do you like to just dig in? Skip the fundamentals and background. Just [skip to Section 2](#) to just get going.

You may have heard of the lean startup movement, or lean manufacturing. This is lean business planning. It gives you planning so you can follow up with tracking, management, and course corrections, to get the benefits of accountability, have strategies and tactics aligned with specifics, and manage your cash flow. But it also saves you from the drawbacks of the traditional formal business plan document, which is obsolete. It's easier, faster, and better. Plan with lean bullet point summaries, a few lists and tables, just the essentials that you need to achieve your business goals.



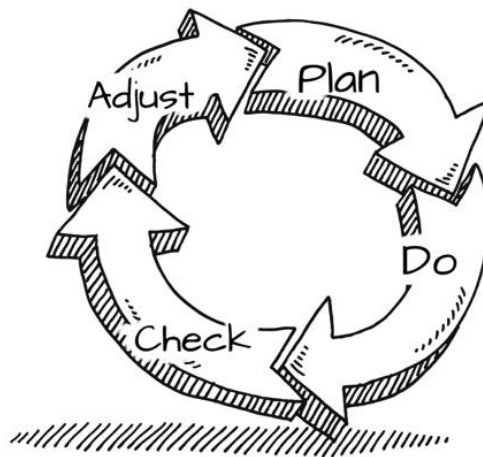
Chapter 1: Lean Business

“Lean manufacturing, Lean Enterprise, or lean production, often simply, ‘lean,’ is a production philosophy that considers the expenditure of resources in any aspect other than the direct creation of value for the end customer to be wasteful, and thus a target for elimination.”

~ Wikipedia

In general, lean means strong with muscle but no fat. Lean means useful. No frills. It’s not thin, not skinny, just lean.

Lean Manufacturing



The concept *lean manufacturing* started with the Japanese automaker Toyota more than 70 years ago and was adopted by manufacturers worldwide. It focuses only on what adds value. And that avoids waste.

Early on, the lean manufacturing people adopted a four-step process called PDCA, for plan-do-check-adjust. PDCA came from quality control expert Dr. Edwards Deming. PDCA itself (the idea of the cycle, although the acronym PDCA has various versions) became the gold standard for manufacturing efficiency.

The essential idea is to take small steps, analyze often, and keep watching results and correcting. That's instead of developing big elaborate plans first, then executing in big steps. There's more review, more revision. That's what is called lean.

The benefits are obvious. Consider how the pace of change is constantly increasing. Technology advances faster every year. Adopting a lean process seems like common sense to me.

My business experience has been mainly computers and software, but my formal education was literature first, then journalism, and then business. I learned software by doing. And, I confess, I never had the patience for the big software development plan that some of the larger companies and more schooled developers did. I was the kind of entrepreneur who built the product in a way that got it to market as quickly as possible. There were always new versions to come. I never thought it was finished, and I worked with the next steps and a broad larger vision. I moved in the right direction without taking a long time trying to imagine, in detail, the final product. That was right for me. And it was lean by instinct, before I knew anybody called that lean.

Lean Startups

Eric Ries' book *The Lean Startup* first appeared in 2011 and became the biggest thing in startups in this century.

What is it? It's what the book says, but that's a different book. For the purposes of definition in this book, here's the Wikipedia definition:

"Similar to the precepts of lean management, Ries' leanstartup philosophy seeks to eliminate wasteful practices and increase value producing practices during the product development phase so that startups can have a better chance of success without requiring large amounts of outside funding, elaborate business plans, or the perfect product."

~Wikipedia

The emphasis there is mine. Keep this phrase "elaborate business plans" in mind when we move to the next section, on the lean business plan.

First, however, more about lean startups (continuing the Wikipedia text above):

“This is done primarily through two processes, using key performance indicators and a continuous deployment process. Because startups typically cannot afford to have their entire investment depend upon the success of one single product launch, Ries maintains that by releasing a minimum viable product that is not yet finalized, the company can then make use of customer feedback to help further tailor their product to the specific needs of its customers.”

~ Wikipedia

The lean startup applies the idea of continuous improvement in steps, or cycles, to starting a new business. The lean startup begins with what they call a minimum viable product, then improves in repetitive cycles, each one involving plan, action, checking results, and revising the plan to start again.

The lean startup idea took off. Experts loved it. Both the lean startup and its suggestion of the minimum viable product now appear nearly everywhere that startups are discussed. There are steadily growing numbers of companion books, follow-up books, conferences, blogs, and lean startup experts and consultants. Most serious attempts at funding new startups pay homage to the lean startup and minimum viable product.

Is this a fad? No. I don't think so. This is evolution related to real changes in the business landscape, accelerating technology, and world economies splitting into ever smaller and potentially more efficient pieces. And the fundamental idea is sound: plan more fluidly, take shorter steps, analyze results, and then take more shorter steps. Change is constant, and the pace of change is increasing, so change the way you do business. Make it lean. And that is as true for established businesses as it is for startups.

Chapter 2: Why Lean Business Planning

“However beautiful the strategy, you should occasionally look at the results.”

~ Winston Churchill

So we’ve seen in the previous section that using the term *lean* in business means focusing on what adds value and avoids waste. It’s also about taking small steps and evaluating results often.

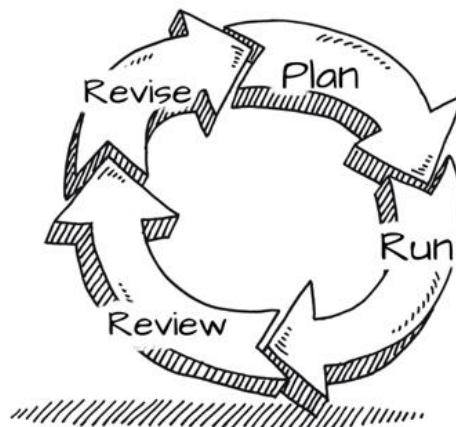
It Starts with a Lean Business Plan

Lean business planning adopts the ideas of small steps, constant tracking, and frequent course corrections to planning. It includes only what adds value, without waste. It starts with a core business plan for internal use only, just big enough for optimizing the business. A lean business plan has four essential parts:

1. A [strategy summary](#), which is a bare-bones description of strategy for management use only.
2. [Execution](#), also a bare-bones description, for management use only. It lays out tactics to execute strategy, like pricing, marketing, product or service development, financing, and so forth.
3. [Concrete specifics](#) including [review schedule](#), [assumptions](#), [milestones](#), tasks, and [performance metrics](#). Milestones include dates, deadlines, and budgets. Tasks include responsibility assignments and budgets.
4. Essential forecasts including [sales](#), [spending](#), and [cash flow](#). And, if you are starting a new business, also your starting costs.

This lean plan is clearly not the “elaborate business plan” that lean startup experts reject. Unlike the elaborate plan, the lean plan doesn’t include carefully worded summaries or detailed business information for outsiders. It is not even a document. It’s a collection of lists, tables, and bullet points.

Keep it Live. Use it Well.



Just like lean manufacturing and lean startups, lean business planning is a process of continuous improvement. It takes small steps, analyzes results, and makes corrections. I've revised the classic PCDA cycle to make a lean planning version that I now call PRRR, for plan-run-review-revise.

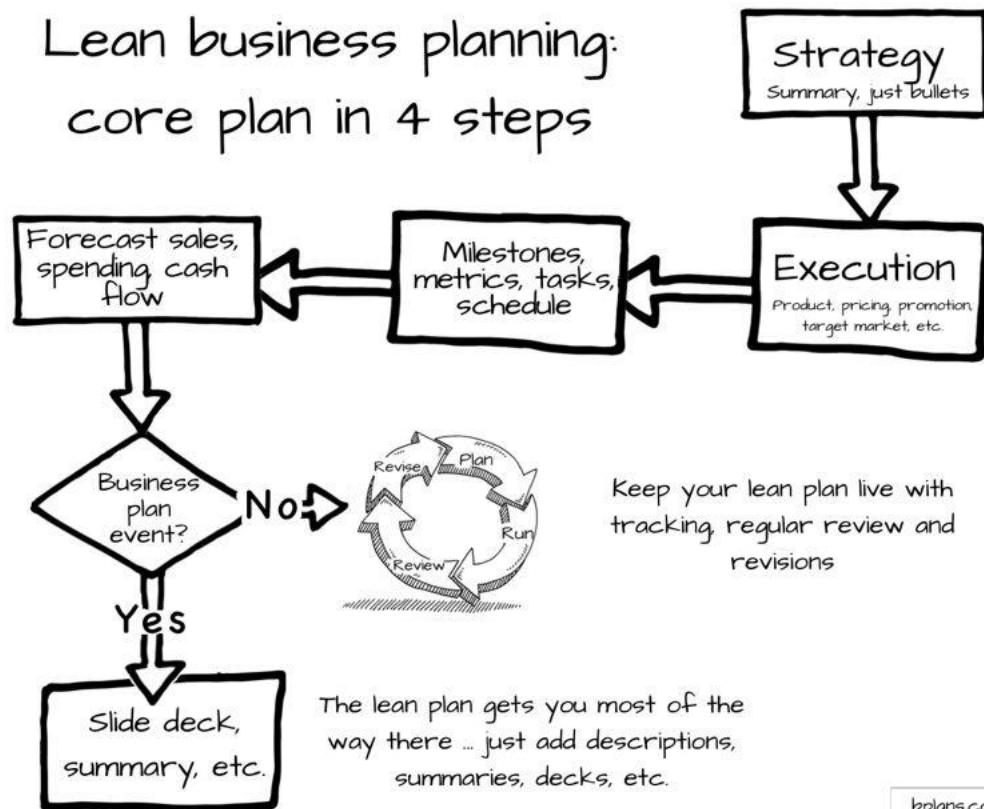
So lean business planning is more than just the lean plan itself. It's the plan plus [regular review and revisions](#). You don't ever finish it because if your plan is done, so is your business. Your live lean plan is easy to revise, and you revise it as often as you want to.

Add More Only as Needed

Much as the lean startup experts complain about what they call the elaborate business plan, real businesses, in the real world, do occasionally need to present a business plan to outsiders. They have what I call [business plan events](#), when a business plan is required.

But times have changed. You still don't need the big plan. Do your lean plan and keep it up to date with regular review and revisions. And when somebody asks for a traditional business plan (if they do), then add the extra ingredients you need. That might be a market analysis, maybe an exit strategy, maybe a detailed description of product or marketing plan. Do them as summaries, presentations, or appendices.

Lean business planning: core plan in 4 steps



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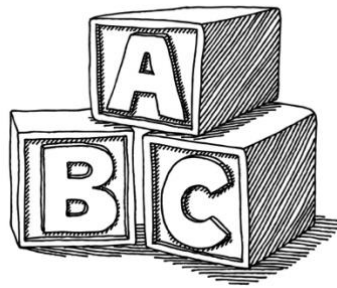
bplans.com

Chapter 3: Principles of Lean Business Planning

“It is not the strongest of the species that survive, not the most intelligent, but the one most responsive to change.”

~Charles Darwin

This chapter describes the principles of lean business planning. You might decide, as you read them, that they apply to all good business planning. I believe they do; but that’s up to you.



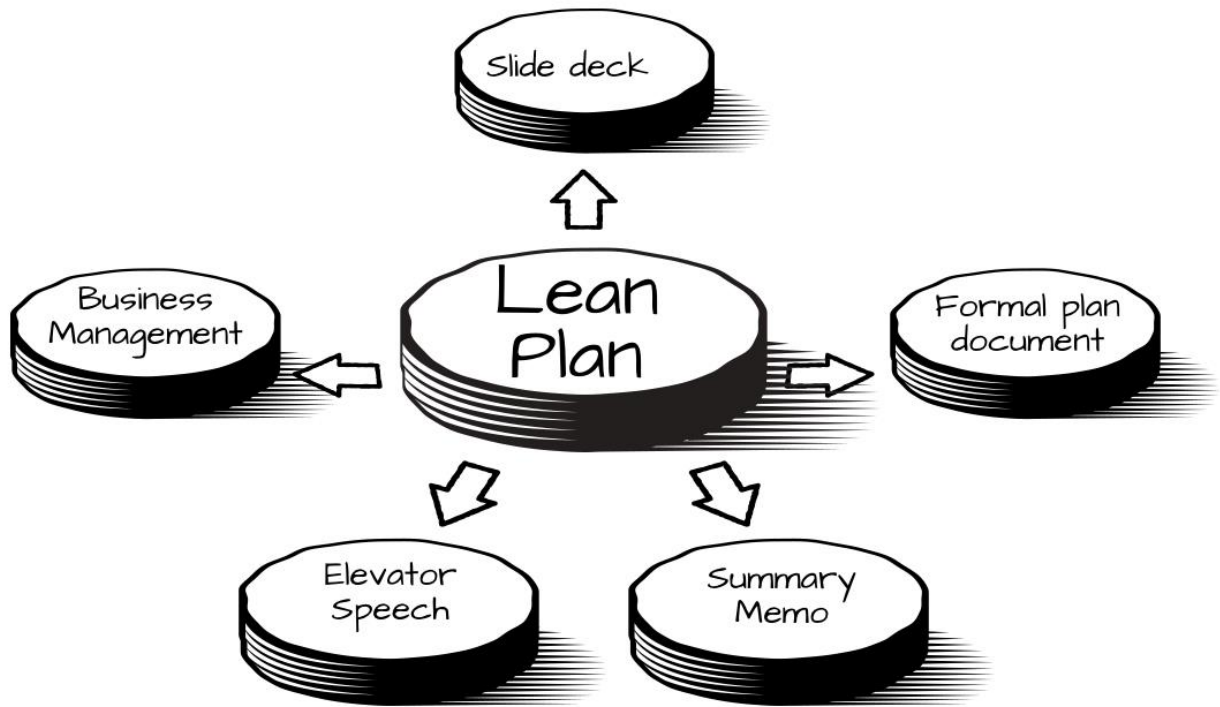
1. Do Only What You’ll Use

Lean business means avoiding waste, doing only what has value. Therefore, the right form for your business plan is the form that best serves your business purpose. Furthermore, for the vast majority of business owners, the business purpose of planning is getting what you want from the business—setting strategy and tactics, executing, reviewing results, and revising as needed. And that purpose is best served with lean planning that starts with a lean plan and continues with a planning process involving regular review and revision. You keep it lean because that’s easier, better, and really all you’re going to use.

Consider Illustration 3-1. I put the lean plan at the center because the plan is about what is supposed to happen, when, who does what, how much it costs, and how much money it generates. It’s a collection of decisions, lists, and forecasts. It doesn’t necessarily exist as a single document somewhere. You use it

to track performance against plan, review results, and revise regularly, so the plan is always up to date. Use LivePlan to keep all of this in one convenient place, where you can access it whenever you want to. And it's only as big as you need for its business function.

Illustration 3-1: Form Follows Function



Don't confuse the plan with the document, the summary, the slide deck, or elevator speech. The plan is what's going to happen. The other forms are just output.

The main output, and therefore the main purpose, of the lean business plan is better business, which means getting what you want from your business. That's what your lean plan is for and that function determines what's there. Forget the additional descriptions for outsiders until you need them. Wait for that until you have what I call [The Business Plan Event](#). One of the appendices, called [Sharing Your Plan](#), covers how to do [summaries](#), [business pitches](#), and even [an elevator speech](#).

Know Your Market, Yes; Describe, Analyze, Prove—Not Necessarily

You have to know your market extremely well to run your business. Know your market like you know the back of your hand. Know your customers, what they need, what they want, how they find you, what messages work for them, what they read, what they do, and all of that.

What you don't have to do, however, is include any of that in your lean business plan. A lean plan doesn't need rigorous market analysis. It doesn't normally include supporting information — at least, not until later, with the business plan event, when it is actually required.

However, your lean plan is about what's going to happen, what you are going to do. It's about business strategy, specific milestones, dates, deadlines, forecasts of sales and expenses, and so forth. It's not a term paper. Yes, you should know your market. But you don't have to prove it until you're trying to find outside investors.

Form follows function: The function of the lean business plan is getting what you want from your business, not selling something to outsiders.

2. It's a Continuous Process, not Just a Plan

Lean business planning isn't about a plan that you do once. Just like lean manufacturing and lean startups, it's a process of continuous improvement.

With lean planning, your business plan is always a fresh, current version. You never finish a business plan, heave a sigh of relief, and congratulate yourself that you'll never have to do that again. You don't use it once and throw it away. You don't store it in a drawer to gather dust.

However, this kind of regularly updated planning is clearly better for business than a more static elaborate business plan. With lean planning, the plan is smaller and streamlined so you can update it easily and often, at least once a month. Your lean plan is much more useful than a static plan because it is always current, always being tracked and reviewed, frequently revised, and is a valuable tool for managing. You run your business according to priorities. Your tactics match your strategy. Your specific business activities match your tactics. And accountability is part of the process. People on the team are aware of the performance metrics, milestones, and progress or lack of it. Things get done.

Furthermore, even back in the old days of the elaborate business plan, it was always true that a good business plan was never done. I've been pointing that out since the 1980s, in published books, magazine articles, and blog posts. That's not new with lean business planning. It's just more important, and more obvious, than ever before.

So a business plan is not a single thing. It's not something you can buy, or find pre-written. You don't do it and forget it, and you don't find a business plan or have one written for you. If you work with an expert, consultant, coach, or business plan writer, realize that in real use a business plan lasts only a few weeks before it needs to be reviewed and revised. So your value added from the expert has to help you in the long term. If you don't know your plan intimately, then you don't have a plan.

3. It Assumes Constant Change

One of the strongest and most pervasive myths about planning is dead wrong: planning doesn't reduce flexibility. It builds flexibility. Lean business planning manages change. It is not threatened by change. People say, "Why would I do a business plan? That just locks me in. It's a straitjacket." And I say: wrong. Never do something just because it's in the plan. There is no merit whatsoever in sticking to a plan just for the plan's sake. You never plan to run yourself into a brick wall over and over.

Instead, understand that the plan relates long term to short term, sales to costs and expenses and cash flow, marketing to sales, and lots of other interdependencies in the business. When things change—and they always do—the plan helps you keep track of what affects what else, so you can adjust accordingly.

Change does not undermine planning; actually,
planning is the best way to manage change.

So running a business right requires minding the details, but also watching the horizon. It's a matter of keeping eyes up, looking at what's happening on the field around you; and eyes down, dealing with the ball—both at the same time.

Which reminds me that dribbling is one of my favorite analogies for business planning. In soccer or basketball, dribbling means managing the hand-eye or foot-eye coordination of the immediate detail while simultaneously looking up and watching opponents and teammates, and developing plays. When I was

coaching kids in soccer, I'd try to help them remember to look up and not just down at the ball. The best players did this naturally.

Here are a couple of additional ways dribbling is like planning:

1. Dribbling is a means to an end—not the goal. Planning is like that too. It's about results, running a business—not at all about the plan itself. Good planning is measured by the decisions it causes. It's about managing, allocating resources, and being accountable. I've written this in several places: “You measure a business plan by the decisions it causes.” And this: “Good business planning is nine parts execution for every one part strategy.”
2. Think of the moment when the player gets the ball in the wrong end of the court or field. That's either a defensive rebound in basketball, or a missed shot on goal in soccer. The tall player gets the basketball and gives it to the one who normally dribbles up court. Or the goalie gets the ball and gives it to a defender. At that moment, in a well-coached team: 1) there is a plan in place, and 2) the player knows the plan but is completely empowered to change it instantly, depending on how the play develops. Business planning done right is very much like that. The existence of a plan—take the ball up the side, pass to the center—helps the team know what ought to happen. But changes—the opponents doing something unexpected—are also foreseen. The game plan doesn't lock the players in to doing the wrong thing or failing to respond to developments. It helps them make instant choices, changing the plan correctly...and when they do, the other players can better guess the next step because of the plan.

4. It Empowers Accountability

It's much easier to be friends with your coworkers than to manage them well. Every small-business owner suffers the problem of management and accountability.

Lean business planning sets clear expectations and then follows up on results. It compares results with expectations. People on a team are held accountable only if management actually does the work of tracking results and communicating them, after the fact, to those responsible.

What gets measured is what gets done.

Metrics are part of the problem. As a rule, we don't develop the right metrics for people. Metrics aren't right unless the people responsible understand them and believe in them. Will the measurement scheme show good and bad performances?

Remember, people need metrics. People want metrics. You and your business need metrics.

And so you have to track. That's where the plan-as-you-go business plan creates a management advantage, because tracking and following up is part of its most important pieces. Set the review schedules in advance, make sure you have the right participants for the review, and then do it.

In good teams, the negative feedback is in the metric. Nobody has to scold or lecture, because the team participated in generating the plan and the team reviews it. Good performances make people proud and happy, and bad performances make people embarrassed. It happens automatically. It's part of the planning process. Besides, guilt and fear tactics are the worst kind of fake management.

And you must avoid the crystal ball and chain. Sometimes—actually, often—metrics go sour because assumptions have changed. Unforeseen events happen. You manage these times collaboratively, separating the effort from the results. Your team members see that and they believe in the process, and they'll continue to contribute.

5. It's Planning Not Accounting

One of the most common errors in business planning is confusing planning with accounting. This is true for lean planning too. Your projections, although they look like accounting statements, are just projections. They are always going to be off one way or another, and their purpose isn't guessing the future exactly right, but rather setting down expectations and connecting the links between spending and revenue. Then when you do your monthly reviews, having made the original projection makes adjustments easier.

They are two different dimensions.

Accounting goes from today backward in time in exact detail. Planning, on the other hand, goes forward into the future in ever-increasing summary and aggregation.

Understanding this difference helps you with the educated guessing involved in making projections. The reports that come out of accounting, called statements, must accurately summarize the actual

transactions that happened in the past. For example, a proper and correct Profit and Loss statement in accounting is a report summarizing all the actual transactions recorded as sales, costs, and expenses for a specified period of time (month, quarter, or year).

PROFIT AND LOSS	
April 2014	
	TOTAL
Income	
4000 Sales	3,799.60
4100 Sales of Services Income	0.00
4110 Business planning	5,975.00
4120 Social media services	30,970.00
Total 4100 Sales of Services Income	36,945.00
Total 4000 Sales	40,744.60
Total Income	\$40,744.60
Gross Profit	\$40,744.60

Profit and Loss	M3	M4	M5
Sales	\$30,000	\$35,000	\$40,000
Direct Costs	\$15,000	\$17,500	\$20,000
Gross Margin	\$15,000	\$17,500	\$20,000
Gross Margin %	50%	50%	50%

But projections, unlike financial statements, are just educated guesses. They aren't reports of a database of actual transactions. Where accounting reports on records in a database, for projections there is no database. We guess what the totals might be.

So you don't try to imagine all the separate transactions in your head, for the future, and then report on them. You estimate the totals. That's not only easier, but better. It's a better match to how the projections help you manage, and how we humans deal with numbers.

Section 2: Do A Lean Business Plan

Benefits, definitions, and principles aside, this section takes you step by step through the process of creating a lean business plan. It's four steps: strategy, tactics, concrete specifics, and essential projections.

Keep it simple. The lean plan is just what you'll use. Yes, you should know your market. Yes, you should have a marketing plan. But almost everything in your lean plan is lists or bullet points, for your own use only.



Chapter 4: Set Your Strategy

“The essence of strategy is choosing what not to do.”

~ Michael Porter



Pull back from the keyboard. Put down that pen. Don't write anything, please, until you've thought through your business strategy. Start your lean plan with practical strategy.

It's harder to write about strategy than just to do it. They give out PhD degrees for strategy studies, which can be extremely elaborate. People spend entire careers studying strategy as it applies to large corporations.

Strategy is like driving and sex—we all think we're pretty good at it. But simplifying, doing today what will seem obvious tomorrow, is genius. I say the best strategies seem obvious as soon as you understand them. Furthermore, it seems to me that if they don't seem obvious after the fact, they didn't work.

I chose the Michael Porter quote above because I believe it's a great way to see strategy in real world small business and startups. Strategy is what you're not doing. My favorite metaphor is the sculptor with a block of marble—the art is what he chips off the block, not what he leaves in. Michelangelo started with a big chunk of marble and chipped pieces off of it until it was his David. Strategy is focus.

Strategy is Focus.

There is a very real business use for a strategy summary as part of every business plan, even a lean plan. Since strategy is focus, it leads to some difficult decisions as time goes on. New opportunities arise. Some new opportunities are great additions, offering healthy evolution and growth. Others are dangerous distractions that dilute the business, blur the focus, and bring the business down. The owner, owners, or core management team have to make these decisions, and they are hard. Normal entrepreneurs want to go into every new market in order to please everybody they can. So a good strategy summary helps to frame the new opportunities.

There's no obvious formula for making these decisions. They don't teach it in business school. It's something business owners have to do for themselves. There is always risk and opportunity. So you refer to your strategy summary first, and then think about it.

This should come up in the monthly review sessions I recommend for every lean business planning process for every business.

Strategy has to be easy to define. The LivePlan method's Problem-Solution-Market-Why-Us works just fine for me. But I've also worked in depth, during my consulting years, with several competing strategy frameworks, and every one of them works well if it's applied correctly and executed. In fact, I say you can also define strategy with a story, or a small collection of stories, which I explain in [Lead with Stories](#).

And let's be clear about this: Methods don't matter. It's what you focus on, and you need to remind yourself to execute consistently and over a long time. Use the LivePlan method here, or use stories, or some other method. What matters is focus, what you do and don't do, and whether it works.

The LivePlan Lean Strategy Method

Think of it as the heart of the business, like the heart of the artichoke: it's a group of four core concepts that can't be separated: Problem, Solution, Market, and Identity. Don't pull them apart. It's the interrelationship between them that drives your business. Each affects the other three.



The Problem You Solve

We forget this too often: Your business is not about you, what you like to do, or what you want from it. It's about your customers. And, most important, the problem you solve for your customers.

Theodore Levitt changed marketing with his pivotal piece *Marketing Myopia*, which includes this important reminder:

People don't want to buy a quarter-inch drill, they want a quarter-inch hole.

And this also famous quote, about railroads:

They [the railroads] let others take customers away from them because they assumed themselves to be in the railroad business rather than in the transportation business.

Real businesses solve problems. And to have an effective business strategy they have to know what problem they solve. In a social media company that posts updates for its clients, the problem it solves is not social media; it's getting the word out; getting people to know you. My favorite restaurant doesn't just

feed me a meal; it gives me healthy, delicious food, in a comfortable environment, a place I like to be for an hour or two with my wife.


Decades ago, when I started developing business plan software, I had to remind myself that people don't want business plan software; they want business plans they can have and execute and work with.

Every business better be solving a problem. If not, its continued existence is threatened.

For purposes of illustration, throughout this book, I use examples and illustrations from several sample lean business plans. Three of these are hypothetical business plans developed to serve as examples. They include a startup subscription soup-for-lunch delivery service for office workers, named *Soup There It Is*; a sample bicycle retail store; and a sample deli in an office park. A fourth is an actual business, a one-person social media consultant, *Have Presence* at havepresence.com. All the strategy examples shown here are put into the LivePlan summary page (also called pitch page in some versions).

Illustration 4-1 shows the problem statement for the soup subscription plan, named *Soup There It Is*. And Illustration 4-2 shows the problem statement for a sample bicycle retailer.

Illustration 4-1 The Problem Soup Subscription Solves



It's not just lunch, it's soup ... it's your business too.

Problem worth solving

Healthy, organic, soup lunches delivered to the workplace on a subscription basis. For growing numbers of health-and-nutrition conscious office workers. A perfect answer for employers who want to have employees stay in for lunch.

Target market

1. Portland OR office locations

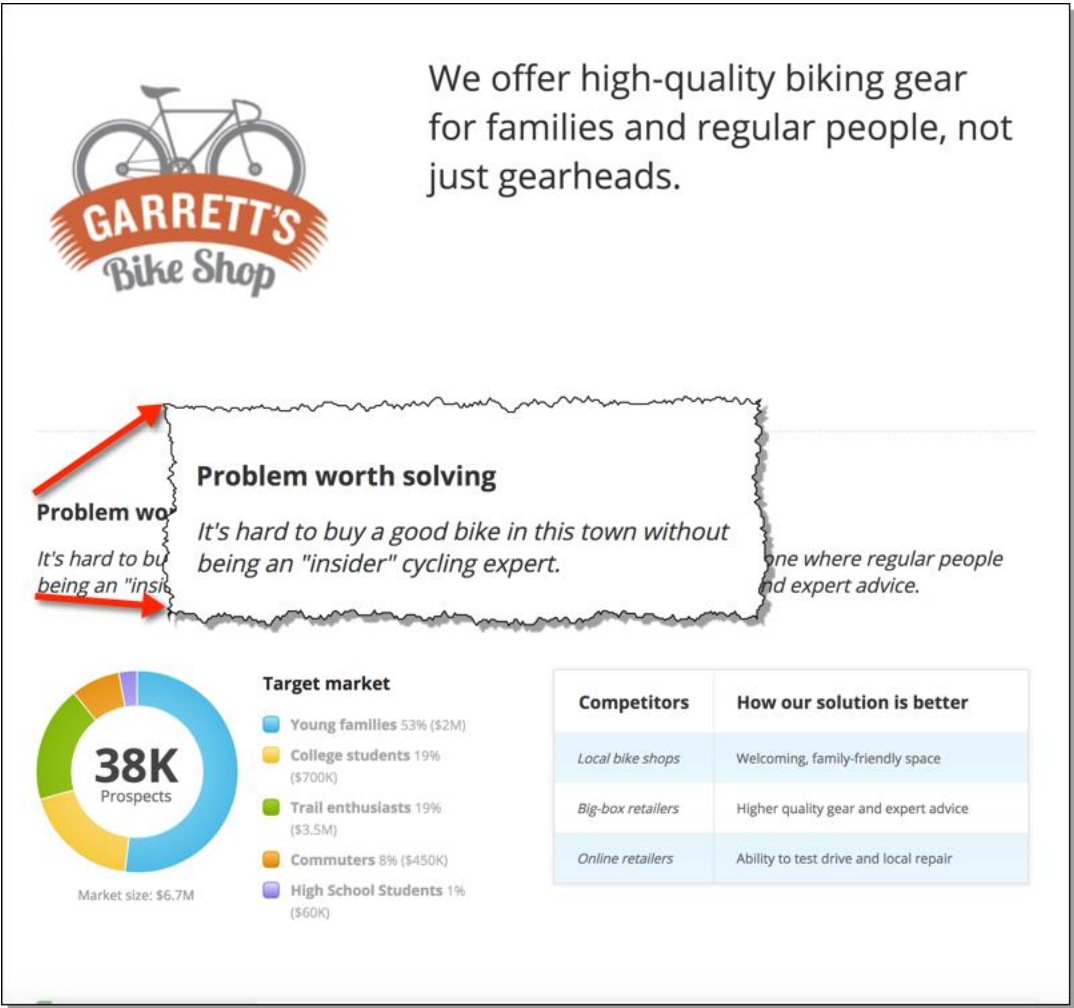
2. 25 or more people in single location

3. Small-medium businesses

4. Larger law firms & professionals

Ad-hoc to-go orders	Dependable every day for easy management
Ad-hoc to-go orders	Dependable every day delivery no hassle
Ad-hoc to-go orders	Cheaper per lunch delivered
Equipped lunch room	Doesn't require in-house management

Illustration 4-2: Problem Statement for Bicycle Store



Your Solution

Your business solution is your product or service. You can already see with the bike shop example how one shop needs one kind of inventory and the other needs a different kind. That’s strategy at work. Your identity influences your choice of market, which influences your choice of product. Your choice of product influences your choice of market. They have to work together.

Understand that you can’t do everything. The bike shop that caters to families and racers is likely to fail. You can’t credibly offer high-end bicycles at bargain prices in a family-friendly atmosphere. If you say you do, nobody believes you anyhow. The subscription soup business can’t compete with normal fast foods or established sandwich delivery on price and convenience alone. So it offers healthy, organic, cooked soup delivered to the desks of office workers. In both cases, you see strategic focus.

Seth Godin's book *The Dip* is about being the best at one thing. That's the point of your focus. Since you can't do everything, and even if you could, your customers wouldn't believe you, you need to focus on something that you do well, that people want. Be the cheap and practical bars of soap that sell in volume in the big chain stores, or be a finely-packaged, expensive, and sweet-smelling soap that sells in boutiques. Don't try to be both.

Illustration 4-3 shows the strategic solution for the bicycle store. Illustration 4-4 shows the same thing for the soup subscription business.

Illustration 4-3: Bicycle Store Solution Statement

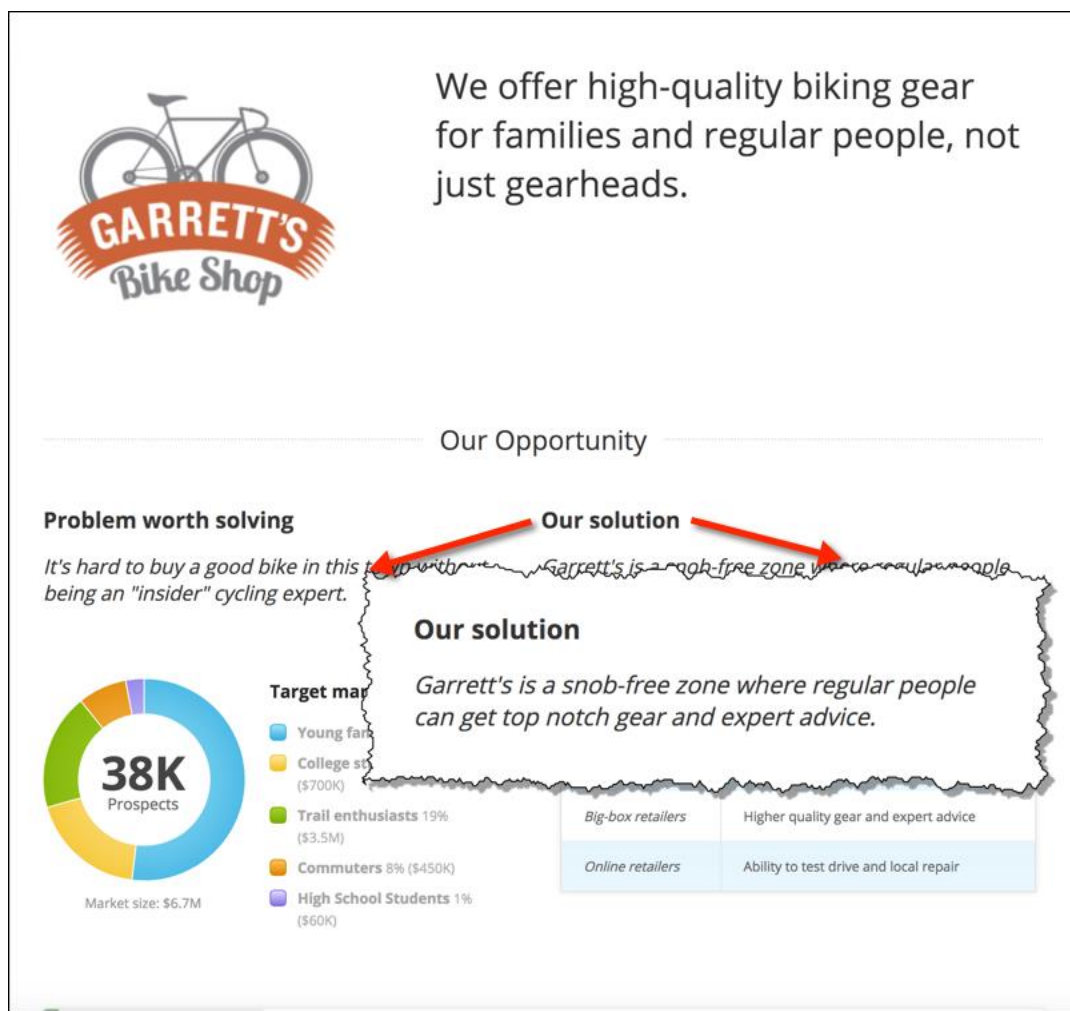


Illustration 4-4: Soup Subscription Solution Statement

SOUP (THERE IT IS)

It's not just lunch, it's soup ... it's your business too.

Our Opportunity

Problem worth solving

Our solution

Healthy, organic
workplace on a
numbers of he
office workers.
who want to ha

Our solution
Soup There It Is delivers healthy soup to the workplace as a service to employers.

Target market

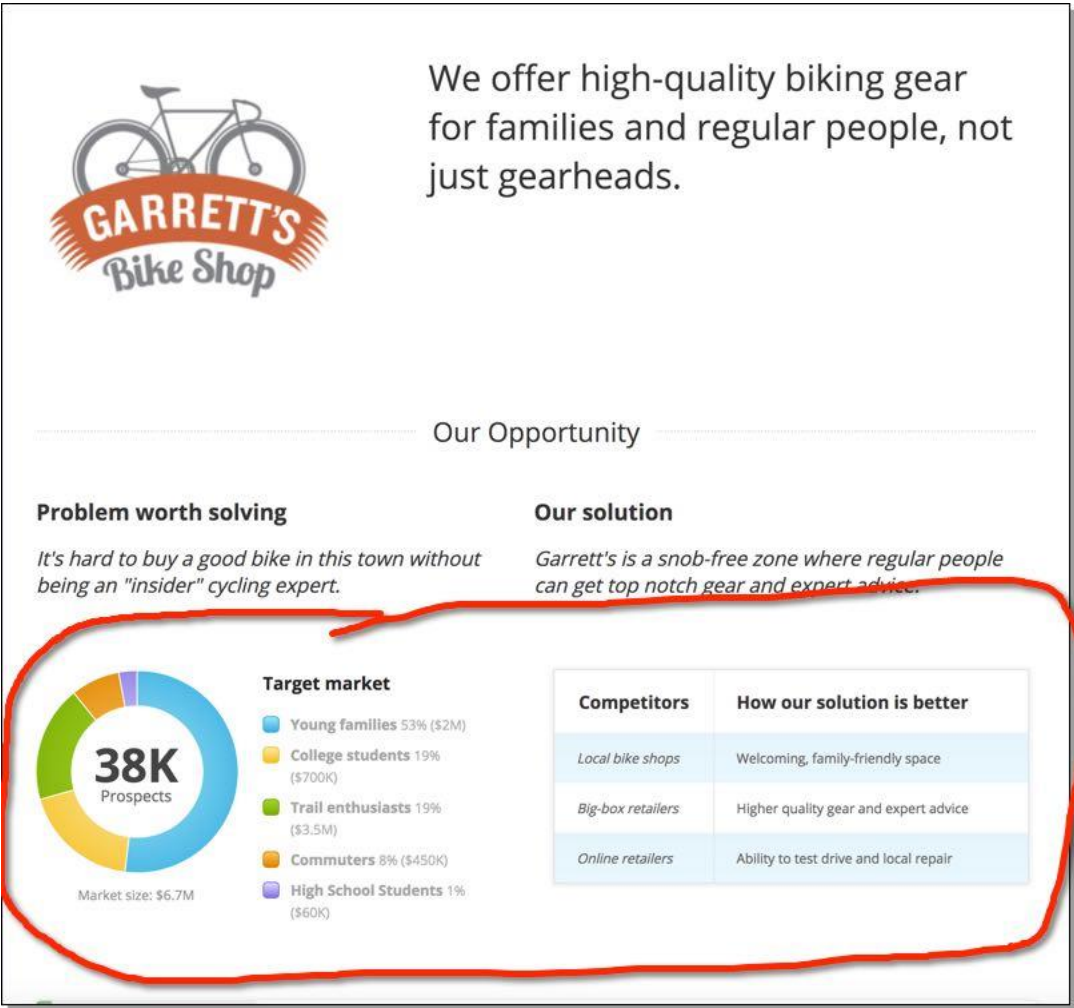
1. Portland OR
2. 25 or more p
3. Small-medium businesses
4. Larger law firms & professionals

Ad-hoc to-go orders	Dependable every day delivery no hassle
Ad-hoc to-go orders	Cheaper per lunch delivered
Equipped lunch room	Doesn't require in-house management

Your Choice of Market

The problem, solution, and your identity (why us) all influence your strategic choice of target market. Garrett, the bicycle store owner, matches his target market to his problem and solution strategies by focusing on families rather than extreme cycling enthusiasts. Illustration 4-5 shows Garrett’s bicycle store target market.

Illustration 4-5: Bicycle Store Target Market Strategy



The soup subscription business focuses on the specific case of office workers and companies that aren't big enough to offer built-in cafeterias for their workers. Furthermore, it hones in on specific office worker situations that are more likely to produce volume subscriptions. The founders realize they can't make a profit trying to serve individuals. Illustration 4-6 shows how they set their target market strategy.

Illustration 4-6: Setting the Target Market Strategy



The Business Identity

Every business has its core identity. How are you different from others? What are your strengths and weaknesses? What is your core competence? What are your goals? What makes you different?

Tip: Think of a business identity as answering the question: Why Us? Why are we the right people for this business? How do we relate to the problem, solution, and market?

As an example, imagine the difference between a bicycle retail store owned and operated by a former professional bike racer, and another one owned and operated by a couple with children who like bicycles as a family activity. The first one will probably stock and sell expensive, sophisticated bicycles for the racing enthusiast and extreme long-distance or mountain biking hobbyist. The second will probably emphasize bicycles for children, bike trailers, carriers, and accessories for families.

Notice, please, how the owner's identity affects strategy in strengths and weaknesses, knowledge and focus, and choice of product and target market.


Part of your identity is what you want from your business. Some businesses are about your lifestyle or pursuing your passion. Some people want their businesses to grow as big and as fast as they can and

are happy to work with investors as owners. Others want to own their own business, even if it has to grow more slowly for lack of working capital. What’s your case? If you’re committed to a second income in a home office, incorporate that into your identity. Don’t look for generalized formulas let your business be unique. That’s differentiation, and it’s important.

Illustration 4-7 shows the team backgrounds for the bicycle business. Notice the combination of business and bicycle expertise.


Illustration 4-7: Why Us for the Bicycle Store

Team and Key Roles




Garrett McKenzie
Founder/Owner

After a successful run as a mortgage broker, Garrett will apply his business acumen to leading a company he is passionate about.




Jill Bloom
Shop Manager

After a decade of bike-shop experience and 5 completed triathlons, Jill will anchor the service side of the business.



Tom McKey
Advisor

Tom is a CPA with twenty-five years of experience advising dozens of startups and small businesses.




Heather Gibson
Investor

Heather is an avid cyclist and small business investor. Her expertise is in small business expansion.

Illustration 4-8 shows the why-us section of the soup subscription plan. LivePlan sample plan *Soup There It Is* (the lean plan version):


Illustration 4-8: Why Us for Soup Subscription

Team and Key Roles




Amy Ortiz
President

Successful founder and owner of Amy's Organic Catering. BA anthropology U. of O. Graduated from 3-year Small Business Management at SBDC




Maura Benson
Website and IT

"Rock-star programmer," freelancer, bought in. BS Computer Science OSU.



Kathy Madison
Marketing

10 years marketing at Whole Foods. BA literature Reed College



Peter Madison
Advisor & Co-founder

Kathy's husband Peter is investing from the beginning and will be active advisor, not employee. MBA U. of Washington. Founder of CSI.

Notice in this case the nice combination of backgrounds and experience. Amy has food business, Kathy has marketing, Maura has tech, and Peter has startup investor experience. And all four of them believe in the underlying values and the need for what they are offering to their customers.

Roll Them Up Together

These four things are your business strategy: problem, solution, market, and identity. Don't pull them apart. Don't take them one at a time. Don't ever stop thinking about them. Remember, in planning as well as in all of business, things change. Keep watching for change.

Business Strategy Brainstorming

The following might help you develop your business strategy. These are topics, tools, and suggestions related to identity, market, or offering.

Problem

- What business are you really in?
- Define the problem you solve.
- What are you doing that needs doing?
- What are you going to fix that needs fixing?

- What are customers getting from you? How are they better off for spending money with your business?
- Who needs your solution to that problem?

Solution

- What's your solution to the problem above?
- What are the benefits to the target market?
- What features do you offer?
- What is different about your solution (think about what they call the *secret sauce*)?
- What don't you do that makes you different? (For example, not all restaurants offer takeout food and drive-through service.)
- Why is your offering better than others?
- What's your value proposition? (That's the benefit you offer, to what target market, at what relative price. For example, the restaurant offers fine dining for people who appreciate the special occasion, at a price premium.)

Market

- Describe your imaginary ideal target buyer. It's like writing about a character in a story. Think of gender, occupation, home, car, favorite media, education, age, and economic situation. Know this person (or, if you are selling to other businesses, do the same for a business).
- Identify your target market as a group of people, kind of buyer, type of company, combination of factors, things people want. It might be "parents of K-6 children," for example. Or small business owners, or knowledge workers, or women over 50.
- Who has the problem and needs your solution to that problem?
- Who isn't in your market? For example, if you are an expensive restaurant with white tablecloths and fine gourmet food, you don't want your market to include families with young children.
- Who doesn't have the problem you solve?
- Who will pay for what you offer?

Identity (Why Us)

- Do a SWOT analysis. SWOT stands for Strengths, Weaknesses, Opportunities, and Threats. It's brainstorming, so first list as many points as you can in each category, then pare them down. It's better with a team, but you can do it yourself too.
- Identify your core competence. What do you do better than anybody else? What do you like to do? What are you uniquely qualified to do?
- What makes you different?
- What's special about your brand, your logo, your mission, or your vision?

Your Strategy Summary in LivePlan

Since this is a first step toward a lean business plan, here's a reminder: The lean business plan is for internal use only. Don't sweat the text. Just do bullets. And in LivePlan, you have an ideal tool for a strategy summary. It's called the Pitch in some versions, summary in others.

LivePlan starts with a simple statement of problem and solution, and then adds a streamlined summary of market. Combined with the implicit identity in the choice of problem and solution, this is an excellent strategy summary. It is more than enough for a lean plan. Illustration 4-9 shows the main points of strategy summary for [Have Presence](#), a social media consulting company; Illustration 4-10 shows it for *Soup There It Is*, the subscription soup lean plan; and Illustration 4-11 shows it for *Garrett's Bike Shop*, a sample bicycle shop.

Illustration 4-9: Have Presence LivePlan Strategy Summary

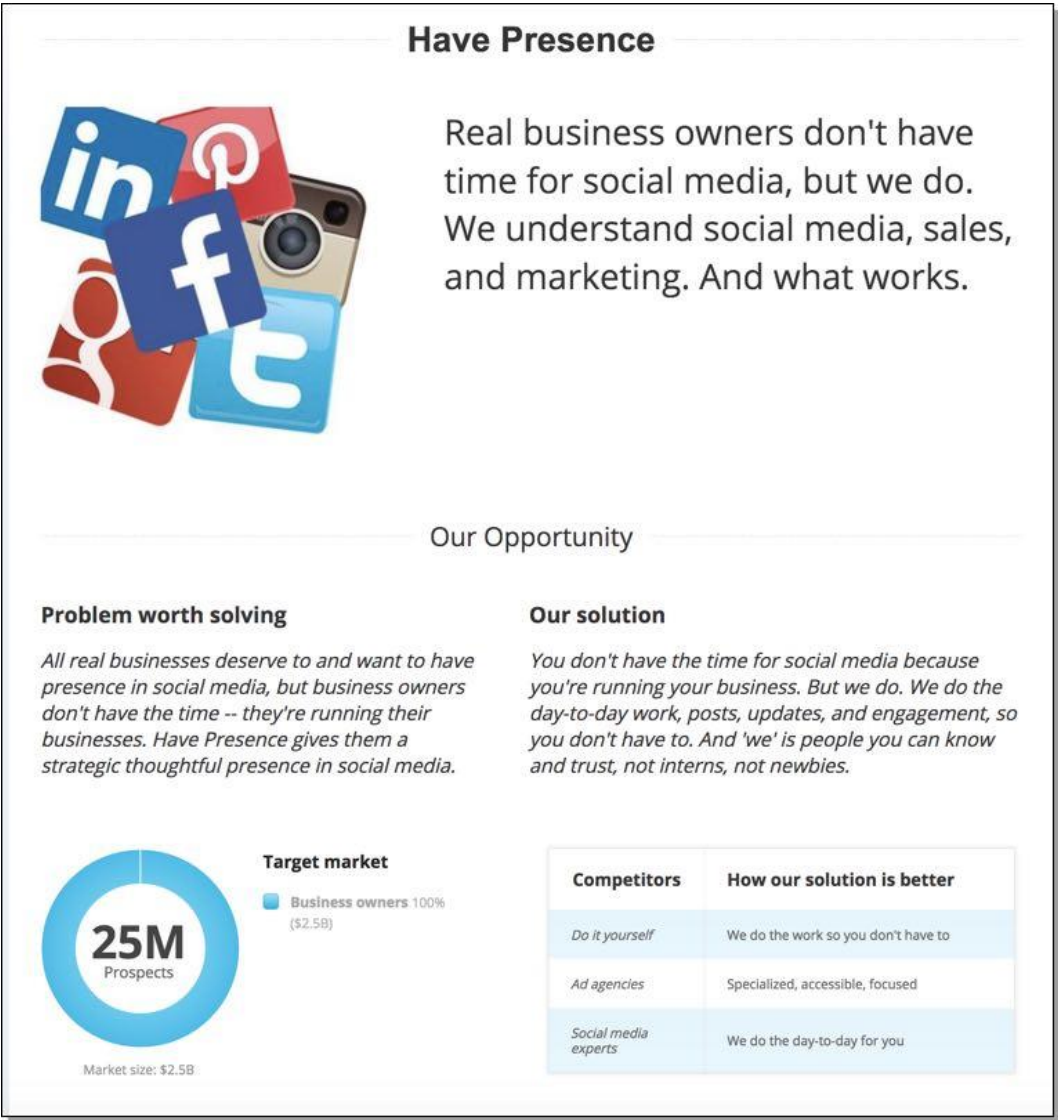



Illustration 4-10: *Soup There It Is* LivePlan Strategy Summary



It's not just lunch, it's soup ... it's your business too.

Our Opportunity

Problem worth solving

Healthy, organic, soup lunches delivered to the workplace on a subscription basis. For growing numbers of health-and-nutrition conscious office workers. A perfect answer for employers who want to have employees stay in for lunch.

Our solution

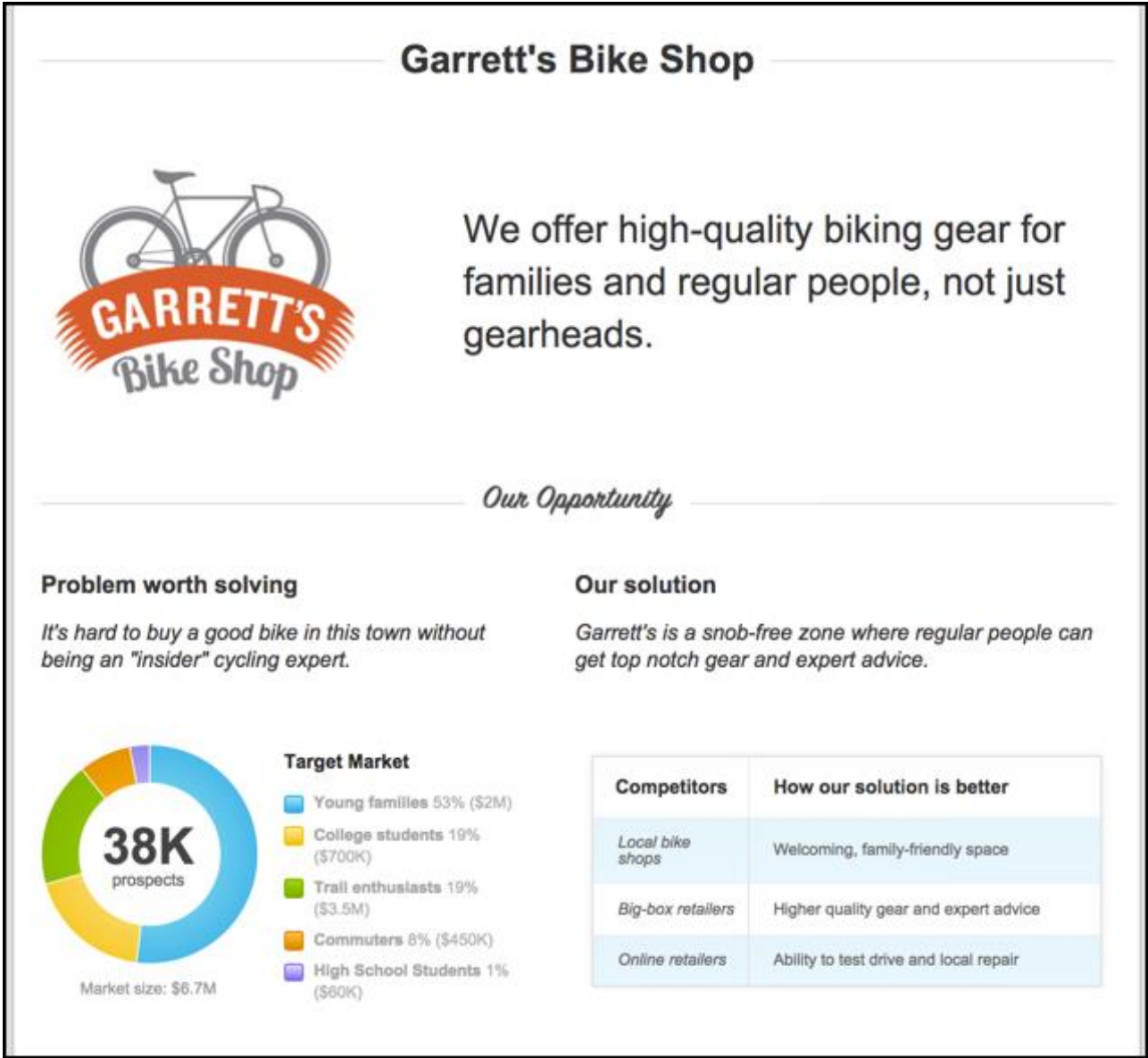
Soup There It Is delivers healthy soup to the workplace as a service to employers.

Target market

- 1. Portland OR office locations
- 2. 25 or more people in single location
- 3. Small-medium businesses
- 4. Larger law firms & professionals

Competitors	How our solution is better
Ad-hoc to-go orders	Dependable every day for easy management
Ad-hoc to-go orders	Dependable every day delivery no hassle
Ad-hoc to-go orders	Cheaper per lunch delivered
Equipped lunch room	Doesn't require in-house management

Illustration 4-11: Garrett’s Bike Shop LivePlan Strategy Summary



Chapter 5: Execution

“Strategy without tactics is the slowest route to victory, and tactics without strategy is the noise before defeat.”

~ Sun Tsu

Lean Business Planning Execution

Strategy needs tactics for execution. In practical terms, this is your marketing plan, your product or service plan, and other tactical plans.

Aim for strategic alignment: match your tactics to your strategy. You should be able to think of your business as a pyramid, with strategy at the top, execution in the middle, and concrete specifics at the base, as in Illustration 5-1.

Illustration 5-1: The Strategy Pyramid



Although a book is sequential, your thinking and planning isn't. This chapter is about the middle area of the pyramid, the execution, mainly marketing and product or service plans. The [previous chapter](#) was

about the strategy at the top, and the [next chapter](#) is about the bottom of the pyramid, the concrete specifics. Don't think of these as separate or sequential. Develop them together. They are sequential here because of format and logistics only.

These tactical plans in your lean plan are as simple as possible, ideally just bullet point references. Don't worry about writing descriptions and explanations, or compiling background information, until you have a real business need to explain them to outsiders. Do worry about thinking all of your marketing and product plans through and planning them well. Even without the big text, you do want to plan and manage your important tactics.

If you're not absolutely sure about your tactics, do your best and remember you're going to review and revise every month from now on.

Illustration 5-2 shows how this section looks in the LivePlan lean plan outline:

Illustration 5-2: LivePlan Lean Plan Execution



Product Execution (or service, or both)

These are about the business offering. Product or service tactics are the decisions you make about pricing, packaging, service specifications, new products or services, product launches, sourcing, manufacturing, software development, technology procurement, trade secrets, bundling, and so forth. Your lean plan contains the decisions you make on these items as bullet points. You know your tactics by heart, so you just list them, briefly, in your lean business plan.

Not sure? Do your best. Only you can decide whether you need to do more testing, research, or prototyping, or launch and develop improvements as you go. That's up to every business owner. There is no certainty ever, so do your best. And remember, you're going to track results, review your metrics, and revise every month. Nothing is written in stone. Illustration 5-2 shows the outline in LivePlan for product execution. And Illustration 5-4 shows the soup subscription example in detail.

Illustration 5-3: Product Execution in LivePlan



Illustration 5-4: Soup Subscription Example Product Execution


Execution


Products

Our Products Edit

We focus on employers for good reason. We may go way beyond this later on, but for now, it gives us a minimum viable product, and an opportunity we can manage. Some important points related to how we can offer this at the prices we can:

1. We launch in a pilot phase in which **we will not serve locations including fewer than 10 subscriptions.**
2. Subscriptions can be billed in bulk to the company, or to the individual.
3. We will bill subscriber companies monthly. Actual bill will depend on actual deliveries, calculated at the end of the month. Individual subscribers will have credit cards on file.
4. Individuals will be responsible for dealing with day-to-day changes, via our simple website with a good interface. Our client pays for a minimum of 10 soups per day whether we deliver 10 or not.
5. Each order is set default at the beginning. And each time a soup is changed, the new sandwich becomes default. Subscribers can change every day if they want. It's up to them. If they do nothing, they get the same soup they ordered yesterday.
6. Customization is manageable. The permutations of customization are manageable. The website will have options to serve special needs including vegetarian, vegan, and gluten free.
7. Our soup thermos is part of the formula. Every day's delivery picks up the previous day's container, so a rotation of two per subscriber. Subscribers will be billed with no hassle \$14.95 whenever they lose their containers ... and we will sell the containers too, because people will like them for lunches for kids, packing for activities, etc. The containers control cost, simplify logistics, and solve a problem too.



 Comments ~

Marketing Execution

Marketing, in its essence, is getting your customers to know, like, and trust you. To do that, you must understand your customers: know how and where to find them, how to help them find you, and how to present your business to best match your strategy and business offering. You have to make choices for pricing, messaging, distribution channels, social media, sales activities, and so forth. For your lean plan,

these are mainly bullet points. They are defining the tactical decisions that you make. In the lean plan they are for internal use only. Illustration 5-5 shows marketing execution in the LivePlan outline.

Illustration 5-5: LivePlan Execution for Marketing and Sales



I do recommend, however, that every business leader take a fresh look at the market at least once a year. Markets change, new markets develop, and you don't want to get lost thinking that what was true in the past is still true and will be true in the future. You can use LivePlan's market assessment tool to help.

Illustration 5-6 shows the sample marketing execution for the *Soup There It Is* lean business plan:

Illustration 5-6: Soup Subscription Sales and Marketing Execution

Marketing & Sales

Pricing

[Edit](#)

Unit economics:

- Given a 10-pot strategy for daily provision of soups, we believe we can deliver the daily portion of soup for \$1.25 per portion in actual food costs.
- We occupy two thermoses per subscription: one delivered and one picked up each day.
- With our volume delivery strategy, we see delivery costs of \$12 per delivery spread over 10 or more subscriptions. We average that as \$1.20 per subscription. It will be less where we have more subscribers per site, so this is conservative.
- A single portion of soup costs us \$0.45 in kitchen and labor costs.
- A thermos costs us about \$7.00. We need two per subscription. If each lasts two months – they should last much longer – that's a cost per meal of \$0.32 (\$14.00 divided by 44 meals).
- Total cost per serving: \$1.25 food, \$0.45 kitchen help, \$0.32 thermos, \$1.20 in delivery, for a total of \$3.22.
- Total cost per monthly subscription, @22 meals: \$70.84.

Subscription pricing:

- One monthly subscription, an average of 22 meals, costs \$99. That's \$4.54 per day.
- The first two thermoses are part of the subscription. From there on, thermoses are billed at \$9.95 for a subscriber.
- A thermos to a non-subscriber costs \$14.95. We sell them on Amazon for \$14.95 each.

[Comments](#)

Marketing Plan

[Edit](#)

Mainstays of marketing mix:

- **Facebook and Twitter content:** Healthy eating, advantages of soups, recipes, lifestyle of the office worker, and events and issues for the Portland metro area.
- We establish twitter allies by linking often to the content providers, potential clients, and media we want as allies.
- **Lunch promotions:** Once every 3 months have a company win a free soup lunch for 10, publicized in local media and social media.
- **Website reviews and testimonials:** Very important. We have to encourage good reviews without being too pushy. Reviews are critical.
- **Media coverage:** We are sure we'll get initial publicity in the Oregonian and Portland Business Journal, plus Silicon Forest and other important blogs.
- We accept speaking engagements from business organizations and startup organizations.
- **Blog:** Posts about soups, recipes, healthy eating, and office environment.
- **Advertising:** Facebook only at first. Starting with our Facebook business page. We like the ability to identify target audiences and control the budget with Facebook advertising.

[Comments](#)

Sales Plan

[Edit](#)

Sales plan:

- Concentrate first on landing business relationships with employers.
- We have a good list of 10 very strong prospect from our own contacts here in Portland.
- We grow with the help of a salesforce of part timers with food backgrounds operating on a low fixed cost and high commission.
- Our website at souphere.com will have strong marketing component as well as hub and logistics for daily details.

Other Execution


Execution often includes financial tactics, or team building, hiring, recruitment tactics, or logistic tactics related to, say, taking on new office or manufacturing space. I group these in the third part of the pyramid shown in Illustration 5-1. Illustration 5-7 shows other execution tactics for *Soup There It Is*.

Illustration 5-7: Other Execution for Soup Subscription Business

Operations


Locations & Facilities Edit

- We will start operating management out of Amy's apartment, and later on set up flexible management space in the Portland Customs House location of wework.
- We believe in remote working for admin, marketing, and sales employees. Office space is obsolete.
- Our kitchen is renting hours from 7 am to 11 am in Portland Contract Kitchens in Northeast Portland. Delivery will go from there.

 [Comments](#) ^


Regulatory Requirements Edit

- Amy is on top of local requirements for food preparation and kitchens. This is not trivial, by any means; but with our strategy of paying the hourly cost for the rental commercial kitchen, we have it covered.
- We are very aware of possible liabilities for food preparation. We trust our expertise.

 [Comments](#) ^

Technology Edit

- Our recipes for healthy eating in our own way is technology. We treat it carefully. We preserve our credibility at all costs.
- We use third-party add-ons for website features as much as possible.
- We maintain the absolute best in the market policy for the thermoses, which will be mission critical.

 [Comments](#) ^

Overall Strategic Alignment

I like the pyramid metaphor because it highlights strategic alignment from strategy at the top to tactics to concrete specific activities.

Strategic alignment is like silk. It's hard to describe in the abstract, but you know it when you see it. And you know the lack of it when you see that, too.

For example: a computer systems retailer whose strategy is providing a high level of service to local businesses. It offers peace of mind in exchange for prices higher than the box stores. It generates strategic alignment by beefing up its service capability with training and additional staff, buying some white vans

with messaging about installation and delivery, and dedicating space in the store for a long service counter staffed by technicians in white coats. That same business is out of strategic alignment if it does nothing to improve service, doesn't deliver or install, and hounds customers who are leaving bills unpaid because their equipment wasn't installed correctly and isn't working.

And another example: a restaurant whose strategy is great healthy gourmet meals for special occasions is in alignment when the food, the locale, and the service are excellent; the food sourcing is organic; the cooking is new cuisine, naturally light; and the meals are expensive. A restaurant with that strategy is out of alignment if the food is mediocre, or too heavy on sauces and butter; the service is poor, or annoying; it offers drive-through value meals; or it caters to kids under 10.

Business Execution Checklist

Execution is easier to recognize than define. Focus on content, what's supposed to happen. Think of tactics as absorbing the traditional marketing plan, product plan, and financing plan. Your next step will be to set these tactics into a plan with concrete milestones, performance metrics, lists of assumptions, and so on.

This brainstorming list should give you an idea of the tactical decisions you make as you execute strategy. In a lean plan, you still want to cover what you need to plan and run your business, but simply jot it down in an organized way, usually bullet points, so you can refer back to it as you flesh out the details. But you don't bother with descriptions.

Marketing Execution

- Execution to locate target market, media that work for target market
- Pricing
- Messaging (tag line, descriptions, etc.)
- Benefits list
- Features lists
- Web presences including web, mobile, social media
- Content marketing
- Advertising

- Packaging
- Channels of distribution
- Margins through channels
- Channel gatekeepers
- Affiliate marketing
- Social media, platforms, metrics, paid posts, etc.
- Events
- Affiliate marketing
- PR (media strategies, interviews, blog posts)

Product Execution

- Product descriptions and product lists
- Technology, patents, trade secrets, protection
- Price lists, menus, etc.
- Features and benefits lists
- Versions, configurations, new versions, new configurations
- New product (or service)
- Product (or service) updates
- Bundling
- Sources and costs, vendors, suppliers
- Packaging
- Liability problems
- Registrations and licenses to meet legal requirements
- Being included in lists of providers

Other Execution

- Funding needs, raising investment
- Use of funds
- Borrowing, loans, credit lines
- Management team recruitment, compensation, and benefits

Chapter 6: Concrete Specifics: Milestones, Metrics, etc.

“Unless commitment is made, there are only promises and hopes; but no plans.”

~ Peter F. Drucker

Review Schedule



The most important single component of a real business plan is a review schedule. This sets the plan into the context of management. It makes it clear to everybody involved (even if that's just you) that the plan is going to be reviewed and revised regularly. All the people charged with executing a business plan have to know when the plan will be reviewed, and by whom. This helps to make it clear that the plan will be a live management tool, not something to be put away on a shelf and forgotten.

For example, at Palo Alto Software, from the early days on, we established the third Thursday of every month as the “plan review meeting” day. We brought in lunch and took over the conference room. It was never a big deal. We were almost always done in 90 minutes. But we scheduled all the meetings as part of the next year's plan, and key team members knew they should attend, and wanted to be there. Absences happened, but only when they were unavoidable.

If your planning process includes a good plan—with specific responsibilities assigned, managers committed, budgets, dates, and measurability—then the review meetings become easier to manage and attend. The agenda of each meeting should be predetermined by the milestones coming due soon, and

milestones recently due. Managers review and discuss plan vs. actual results, explaining and analyzing the differences.

Even if it's just you in your business, you should still do a monthly review. We all benefit from the discipline of a scheduled time to take a step back from the day-to-day, review progress, analyze results, and make changes. That's called management.

LivePlan includes an ideal scheduling tool for planning and scheduling the monthly reviews. Illustration 6-1 shows some of the detail from a bicycle shop sample lean plan:

Illustration 6-1: Sample Review Schedule in LivePlan

Garrett's Bike Shop -

Pitch

Plan

Forecast

Benchmarks

Schedule

Scoreboard

Manage Users

Milestone Schedule

Upcoming

Thursday, November 13 (4 days away)

☐ Top 10 customer list Terry Edit Delete

Wednesday, January 14 2015 (66 days away)

☐ Social media program Terry Edit Delete

Thursday, January 22 2015 (74 days away)

☐ Monthly review Garrett Edit Delete

Thursday, February 19 2015 (102 days away)

☐ Monthly review Garrett Edit Delete

Wednesday, March 18 2015 (128 days away)

☐ Spring promotion plans Terry Edit Delete

Thursday, March 19 2015 (129 days away)

☐ Monthly review Garrett Edit Delete

Thursday, April 16 2015 (157 days away)

☐ Monthly review Garrett Edit Delete

+ Add new milestone

November

Su	Mo	Tu	We	Th	Fr	Sa
						1
2	3	4	5	6	7	8
9	10	11	12	13	14	15
16	17	18	19	20	21	22
23	24	25	26	27	28	29
30						

December

Su	Mo	Tu	We	Th	Fr	Sa
	1	2	3	4	5	6
7	8	9	10	11	12	13
14	15	16	17	18	19	20
21	22	23	24	25	26	27
28	29	30	31			

January

For each item on the list, LivePlan lets you add details including not just the date, but also who's responsible, plus notes, as shown in illustration 6-2:

Illustration 6-2: Milestone Details

Tell us about this milestone

What do you want to call it?

Monthly review

Due Date **Who is responsible? (optional)**

1/22/2015 Garrett

Details (optional)

We're moving this to the fourth Thursday this month because Jan. 1 is the first, and there's still some holiday. We won't review the year until next month.

Cancel OK

Identify and List Assumptions

Identifying assumptions is extremely important for getting real business benefits from your business planning. Planning is about managing change, and in today's world, change happens very fast. Assumptions solve the dilemma about managing consistency over time, without banging your head against a brick wall.

Assumptions might be different for each company. There is no set list. What's best is to think about those assumptions as you develop, review, and manage your lean business plan.

If you can, highlight product-related and marketing-related assumptions. Keep them in separate groups or separate lists.

The key here is to later identify and distinguish between changed assumptions and the difference between planned and actual performance. That's very valuable during the regular reviews and revisions that are part of lean planning and management. You don't truly build accountability into a planning process until you have a good list of assumptions that might change.

Some of these assumptions go into a table, with numbers, if you want. For example, you might have a table with interest rates if you're paying off debt, or tax rates, and so on.

Illustration 6-3 shows how the *Soup There It Is* lean plan lists assumptions. And Illustration 6-4 shows how a sample bike store lean plan has a simple list of assumptions:

Illustration 6-3: *Soup There It Is* Assumptions

Key assumptions

Edit

Regarding profits:

- We plan to lose money every year of the five-year forecast. That's strategic spending to grow revenues.
- The projected losses match the strategy of raising \$300K angel investment the first year, \$500K the second year, and \$2.5 million series A venture capital in the third year.
- We could have planned to grow to something like \$5 million year year in the Portland market, charging \$179 per month per subscription. We don't.
- Heavy salaries will be required as we grow. Marketing doesn't happen by itself. And admin will be serious as we grow as fast as we plan to grow.

Environmental assumptions:

- No regulatory problems
- Continued high growth of Portland metro area relative to other areas
- No new launches focused on delivered soup in our area
- Stable food prices


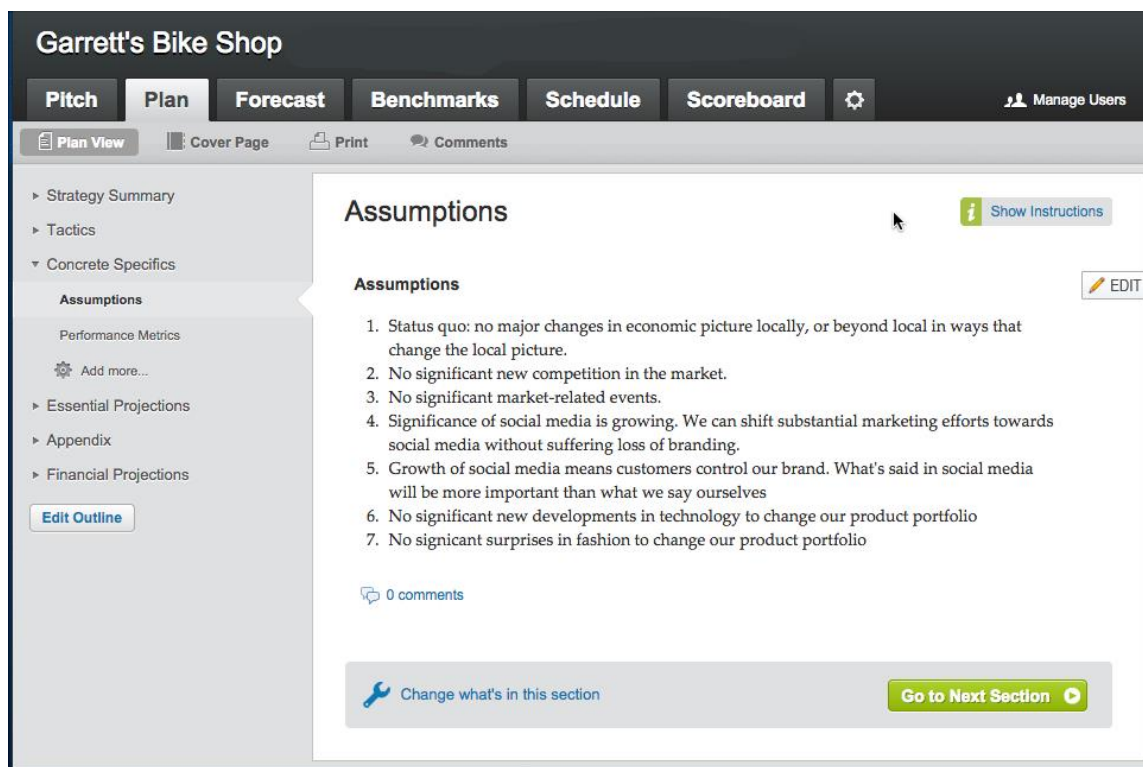
 Comments ^

Illustration 6-4: Sample Bike Store List of Assumptions



Many assumptions deserve special attention. Maybe in bullet points. Maybe in slides. Maybe just a simple list. Keep them on top of your mind, where they'll come up quickly at review meetings.

Maybe you're assuming starting dates of one project or another, and these affect other projects. Contingencies pile up. Maybe you're assuming product release, or seeking a liquor license, or finding a location, or winning the dealership, or choosing a partner, or finding the missing link on the team.

Maybe you're assuming some technology coming on line at a certain time. You're probably assuming some factors in your sales forecast, or your expense budget; if they change, note it, and deal with them as changed assumptions. You may be assuming something about competition. How long do you have before the competition does something unexpected? Do you have that on your assumptions list?

Milestones



There's no real plan without milestones. Milestones are what you use to manage responsibilities, track results, and review and revise. And without tracking and review, there is no management, and no accountability.

You can use the scheduling feature in LivePlan to develop your milestones and manage them with tracking and email reminders. In Illustration 6-1 we saw how the bicycle store lean plan review schedule also contained milestones including a top 10 customer list, Spring promotion, and social media setup. LivePlan mixes the review schedule and milestones together. Illustration 6-5 shows an example in the *Soup There It Is* lean plan.

Just as you need tactics to execute strategy, so too you need milestones to execute tactics. Normally you'll look for a close match between tactics and milestones.

And you might also have budgets, start dates, and additional information for main milestones. Then make sure all your people know that you will be following the plan, tracking the milestones, and analyzing the plan-vs.-actual results. If you don't follow up, your plan will not be implemented.


Your milestones list and categorize what's supposed to happen for ongoing tactics related to products, services, marketing, and sales. They include launch dates, review dates, prototype availabilities, advertising, social media, website development, and programs to generate leads and traffic. The milestones set the plan tactics into practical, concrete terms, with real budgets, deadlines, and

management responsibilities. They are the building blocks of strategy and tactics. And they are essential to your ongoing plan-vs.-actual management and analysis, which is what turns your planning into management.

And you develop your milestones by thinking through strategy, tactics, and actions for your business offering and marketing. So you can naturally divide your milestones into the same categories as your tactics: marketing and sales, product, and other (where “other” might be, as with tactics, financing activities like raising investment or contracting commercial credit). Or the milestones might be related to legal issues, or managing a team, or logistics like moving or opening a new location.

Illustration 6-5: *Soup There It Is* Milestones

Milestone Schedule

 Upcoming

Your pitch will have the next five upcoming milestones

Friday, September 28 (130 days away)

☐ Business plan done

Amy and Peter

Edit | Delete

Tuesday, November 6 (170 days away)

☐ Bank account set up

Amy

Edit | Delete

Thursday, November 15 (179 days away)

☐ Kitchen facility contracted

Amy and Kathy

Edit | Delete

Monday, December 10 (204 days away)

☐ Website ready

Maura

Edit | Delete

Friday, January 4 (229 days away)

☐ Legal entity finished

All 4 founders

Edit | Delete

Tuesday, January 8 (233 days away)

☐ Initial funding checks in the bank

All 4 founders

Edit | Delete

Thursday, January 10 (235 days away)

☐ Social media platforms & profiles

Kathy

Edit | Delete

Sunday, February 10 (266 days away)

☐ Kitchen ready and stocked

Amy

Edit | Delete

Friday, March 1 (285 days away)

☐ Launch

Amy, Maura, Kathy

Edit | Delete

Thursday, August 15 (451 days away)

☐ Thermos product launch marketing plan

Kathy

Edit | Delete

Tuesday, September 17 (484 days away)

☐ Angel investment materials ready

Amy and Peter

Edit | Delete

Add a Milestone

Metrics

Developing performance metrics is a critical part of developing accountability as one of the principles of lean planning:

Lean business planning sets clear expectations and then follows up on results. It compares results with expectations. People on a team are held accountable only if management actually does the work of tracking results and communicating them, after the fact, to those responsible.

"Metrics" is my favorite word for performance measurements that you track as part of your regular planning process. They are numbers people can see and compare. Make them explicit as part of your lean plan. Show them to the management team as part of the planning and then show the results again and again during your monthly review meeting. Management often boils down to setting clear expectations and then following up on results. Those expectations are the metrics.

The most obvious metrics are in the financial reports: sales, cost of sales, expenses, and so on. Most people in business understand how assigning specific responsibility for those financial numbers, and managing those numbers closely, builds accountability in a business. Those are classic performance metrics.

However, with good lean planning, you can look for metrics throughout the business, aside from what shows up in the financial reports. For example, marketing is traditionally accountable for levels of expenses in the financials, but also generates metrics on websites, social media, emails, conversions, visits, leads, seminars, advertisements, media placements, and so on. Sales is traditionally responsible for the sales reports in the financials, but there are also calls, visits, presentations, proposals, store traffic, price promotions, and so on. Customer service has calls, problems resolved, and other measures. Finance and accounting have metrics including collection days, payment days, and inventory turnover. Business is full of numbers to manage and track performance. When metrics are built into a plan, and shared with the management team, they generate more accountability and more management.

Illustration 6-6 shows the simple metrics for the bicycle store sample lean plan. And Illustration 6-7 shows sample metrics for *Soup There It Is*:

Illustration 6-6: Bike Shop Metrics Example

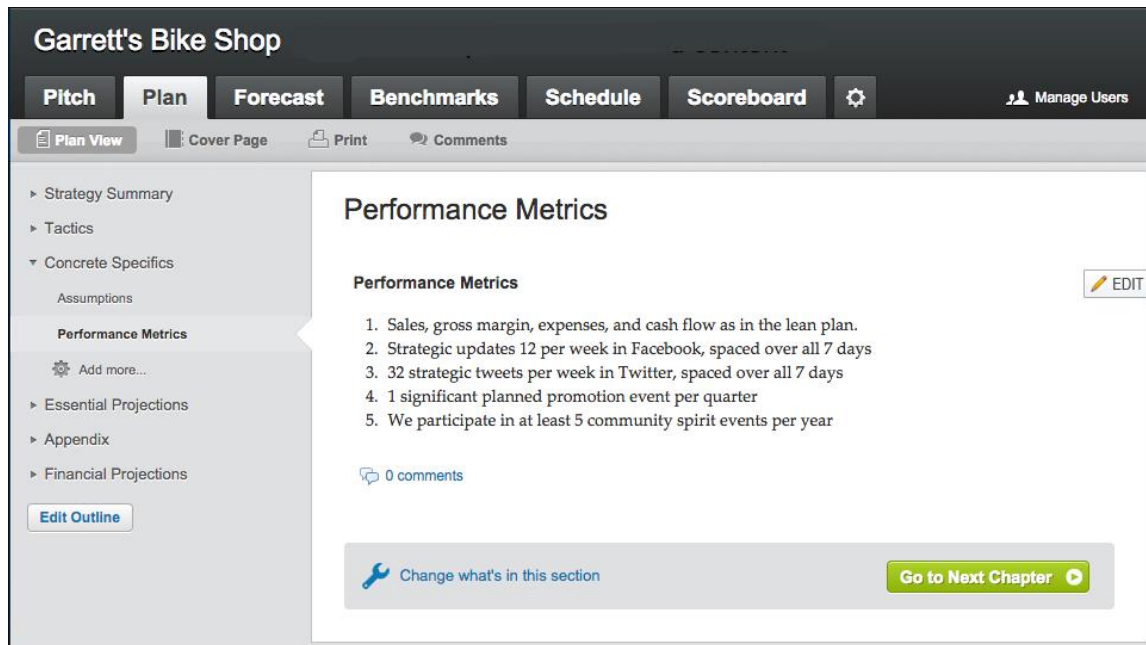
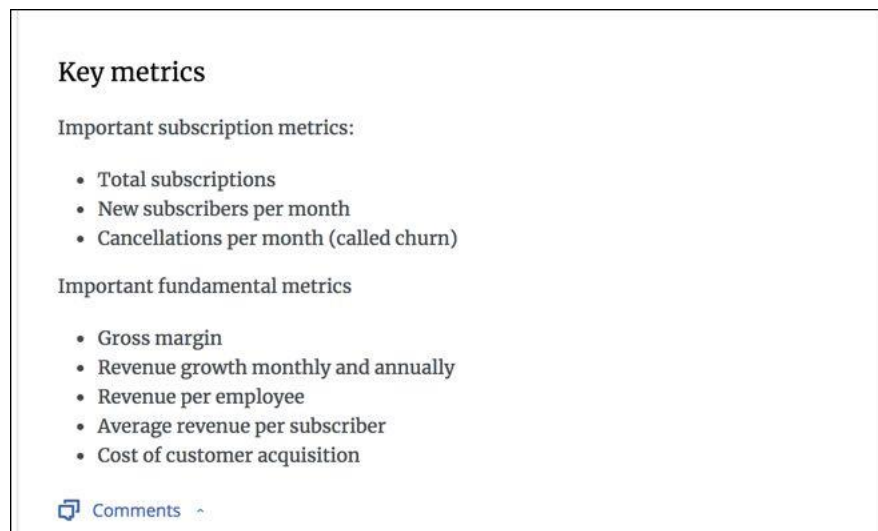


Illustration 6-7: Soup There It Is Metrics



Developing the metrics required to bring your people into the planning process is very important. Involve the team in deciding what metrics to use. The people in charge often fail to realize how well the players on the team know their specific functions, and how they should be measured.

Of course, the expectation numbers you have at the start aren't enough by themselves. For real accountability, management revisits those numbers regularly to track progress and make people accountable for results. This is a critical part of what makes planning a tool for steering a business and better management.

For example, as in the Illustrations above, give whoever is responsible for social media specific numbers for updates.

Chapter 7: Forecast Your Sales

*“It is far better to foresee even without certainty
than not to foresee at all.”*

~ Henri Poincare

LivePlan is ideal for doing the essential numbers in a lean business plan. It guides you through step-by-step inputs and assumptions for sales, budget, and cash flow. You can leave it at just that for your lean plan, or, as an option, use it later to generate more detailed and official-looking financial projections suitable for a more formal or elaborate business plan document.

And furthermore, if you use one of the major small business accounting packages, then LivePlan’s Dashboard connects your plan to your accounting to generate automatic charts and data comparing your actual financial results to the essential numbers in the plan. That’s something I cover Section 3 in detail, but it’s good to know as you set up the plan and the essential projections.

A lean business plan includes three essential projections. The sales forecast, in this chapter; the spending budget, in the following chapter; and the projected cash flow, in Chapter 9.

LivePlan Sales Forecast

LivePlan is set up to manage your sales forecast for you: you do the assumptions and the software does the calculations correctly and formats for presentation in tables and charts. LivePlan helps you get the assumptions in place and guides you through the process with prompts and explanations.

Yes, you can manage your sales forecast assumptions. Don’t think you need to have an MBA degree or be a CPA. Don’t think it’s about sophisticated financial models or spreadsheets. I was a vice president of a market research firm for several years, doing expensive forecasts, and I saw many times that there’s nothing better than the educated guess of somebody who knows the business well. All those sophisticated techniques depend on data from the past. And the past, by itself, isn’t the best predictor of the future. You are. So let’s look at how to forecast sales, step by step.

Your sales forecast won't accurately predict the future. We know that from the start. What you want is to understand the sales drivers and interdependencies, to connect the dots, so that as you review plan-vs.-actual results every month, you can easily make course corrections.

If you think sales forecasting is hard, try running a business without a forecast. That's much harder.

Your sales forecast is also the backbone of your business plan. People measure a business and its growth by sales, and your sales forecast sets the standard for expenses, profits, and growth. The sales forecast is almost always going to be the first set of numbers you'll track for plan-vs.-actual use, even if you do no other numbers.

If nothing else, just forecast your sales, track plan-vs.-actual results, and make corrections; that's already business planning.

Sales Forecast Step 1: Plan Your Streams

Plan how many streams of revenue you have. Look for the right level of detail. Forecasting, even though it often results in tables that look like accounting reports, doesn't work in too much detail. For example, a restaurant ought not to forecast sales for each item on the menu, but for breakfasts, lunches, dinners, and drinks. And a bookstore ought not to forecast sales by book, and not even by topic or author, but rather hard cover, soft cover, magazines, and maybe main sections (such as fiction, non-fiction, travel, etc.) if that works.

Furthermore, with LivePlan, you should set your streams to match your accounting, so you can take advantage of the Dashboard feature for automatic plan vs. actual analysis later. This is excellent for lean business planning. It makes the heart of the process, the regular review and revision, much easier.

And, happily, your sales forecast streams in your plan don't have to be an exact match to the chart of accounts in your accounting. You'll be able to customize the connection between the plan and the accounting when you connect them. So, for example, you can collect all the detailed rows of sales for a given category to have LivePlan manage the higher-level summary.

For instance, the *Soup There It Is* lean business plan includes three lines of sales. There are the main monthly subscriptions plus two streams of products. It summarizes by the product lines as shown in illustration 7-1:

Illustration 7-1: A Look at Revenue Streams

Plan your rows of sales projections. Think of categories or classes of sales. LivePlan calls them streams.

Add your revenue streams one by one

Revenue	Jan '19	Feb '19	Mar '19	Apr '19	May '19	June '19
▶ Subscriptions				\$4,998	\$9,745	\$23,151
▶ Thermos for subscribers				\$149	\$607	\$2,090
▶ Thermos as product						
Totals				\$5,147	\$10,352	\$25,240

☒ Show monthly detail

LivePlan guides you through this process. You name your category and then forecast as shown in Illustration 7-2. First, though, I recommend planning all the categories.

LivePlan gives you the option of forecasting amounts per month or forecasting units and average prices per item. I strongly recommend the forecast by units, which is what I show here. Projecting unit sales and unit prices gives you more information to work with later, when you evaluate actual results compared to plan. You'll be able to determine to what extent the difference between plan and actual is the result of a difference in units, or a difference in price.

At first glance, service businesses don't sell units. However, attorneys and accountants bill by the hour, taxi drivers charge by the trip, and so forth. Try to make the effort to think of your sales in units. If you can't, then don't; you still need a sales forecast.

Illustration 7-2 shows how LivePlan gives you a choice of forecasting by units or not. The options include revenue only, unit sales, or recurring charges (such as a monthly subscription). It's your choice. I recommend unit sales and that's what I use for the bicycle store examples in this book.

Step 2: Add and estimate each stream

LivePlan offers four ways to forecast a revenue stream:

- **Unit Sales:** My personal favorite. Sales = units times price. You set an average price and forecast the units. And of course, you can change projected pricing over time. This is my favorite for most businesses because it gives you two factors to act on with course corrections: unit sales, or price.
- **Billable hours:** Very similar to Unit Sales, but with hours instead of units. Conceptually identical. LivePlan offers this because so many service businesses bill by the hour.
- **Recurring charges:** Subscriptions. For each month or year, it has to forecast new signups, existing monthly charges, and cancellations. Estimates depend on both new signups—which LivePlan forecasts as units—and cancellations, which LivePlan forecasts with an assumption called “churn.”
- **Revenue only:** For those who prefer to forecast revenue by stream as just the money, without the extra information of breaking it into units and prices.

Illustration 7-2: Select a Forecasting Option for Each New Stream

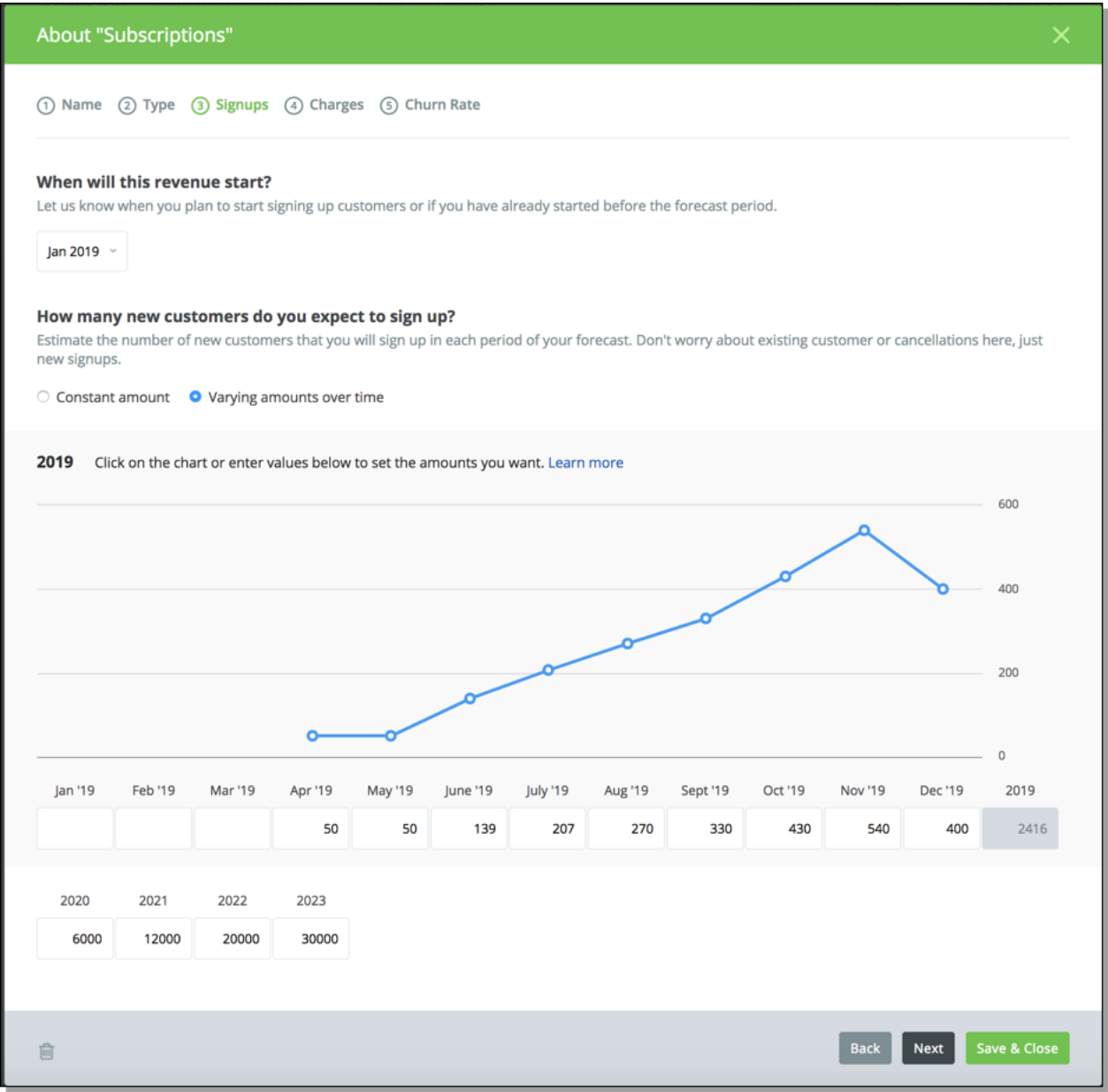
The screenshot shows a dialog box titled "About 'Thermos for subscribers'" with a close button (X) in the top right corner. Below the title is a progress bar with four steps: 1 Name, 2 Type (highlighted in green), 3 Unit Sales, and 4 Unit Prices. The main content area is titled "What type of revenue stream is this?" and contains four radio button options:

- ☒ **Unit sales**
Best for products that are sold in individual units or set quantities
- ☐ **Billable hours**
Best for services that are priced on a per-hour basis
- ☐ **Recurring charges**
Best for subscriptions, memberships, rentals, web apps, or other offerings with monthly or periodic charges
- ☐ **Revenue only**
If none of the models above are applicable, or you already have a detailed forecast in Excel or elsewhere, choose this option to just enter overall revenue values without any detail

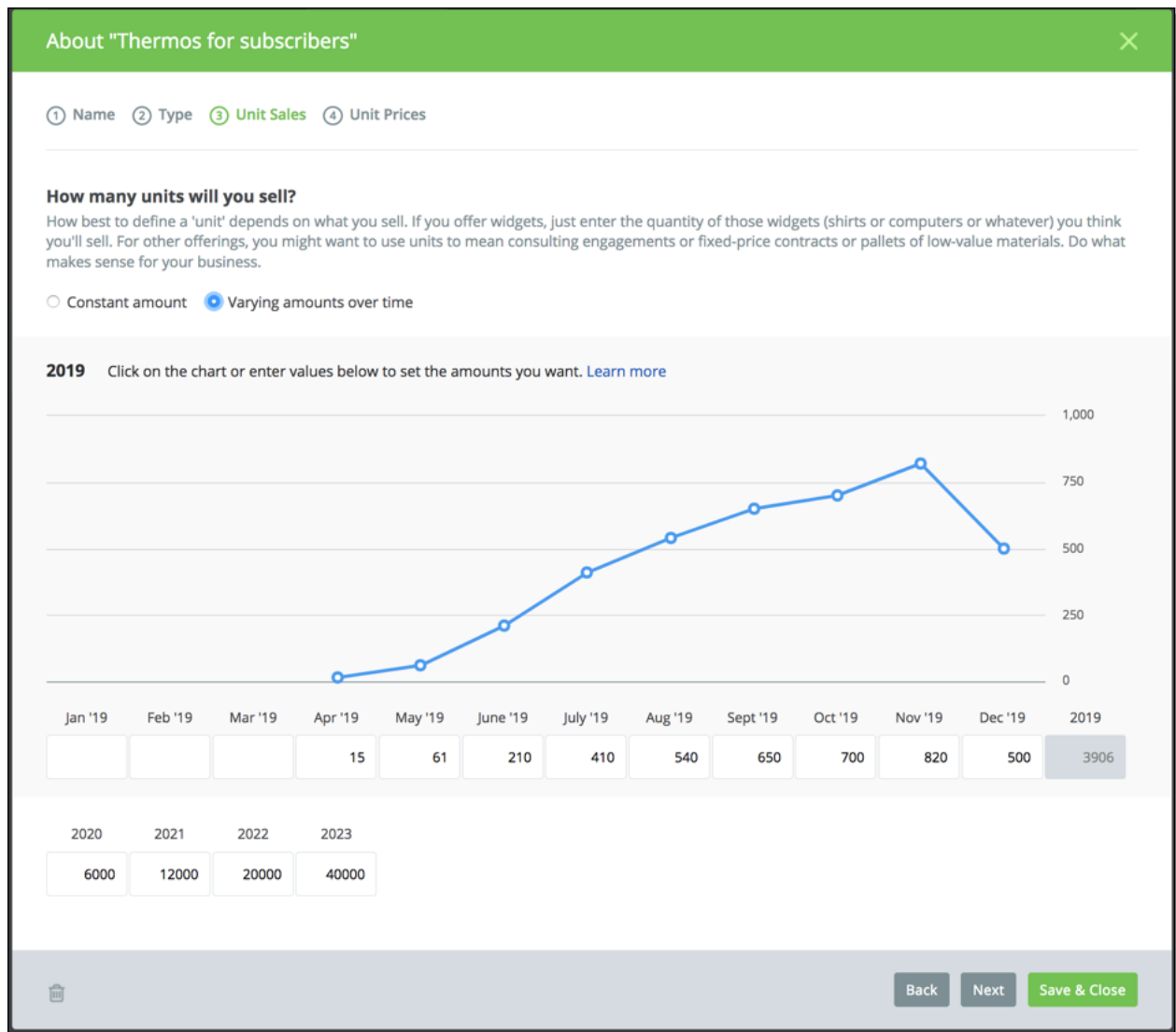
At the bottom of the dialog box, there are three buttons: "Back", "Next", and "Save & Close". A trash can icon is also visible in the bottom left corner.

For each separate revenue stream, when you add it into the forecast, you set the options and do your numbers. For example, Illustration 7-3 shows how the *Soup There It Is* plan forecasts initial signups of its subscription business; and unit sales of one of its product businesses.

Illustration 7-3: Making Sales Assumptions in detail



Special Tip: As you do this, you can type numbers or move points by clicking on them and dragging them with your mouse



But how do you know what numbers to put into your sales forecast? The math may be simple, yes, but this is predicting the future; and humans don't do that well. Don't try to guess the future accurately for months in advance. Instead, aim for making clear assumptions and understanding what drives sales, such as web traffic and conversions, in one example, or the direct sales pipeline and leads, in another. And you review results every month and revise your forecast. Your educated guesses become more accurate over time.

Timing of sales

Your sales are supposed to refer to when the ownership changes hands (for products) or when the service is performed (for services). It isn't a sale when it is ordered, or promised, or even when it's

contracted. With proper accrual accounting, it is a sale even if it hasn't been paid for. With so-called cash-based accounting, by the way, it isn't a sale until it's paid for. Accrual is better because it gives you a more accurate picture, unless you're very small and do all your business, both buying and selling, with cash only. I know that seems simple, but it's surprising how many people decide to do something different. And the penalty of doing things differently is that then you don't match the standard, and the bankers, analysts, and investors can't tell what you meant. And of course the worst penalty is not having a good picture of future cash flow.

Use experience and past results

Experience in the field is a huge advantage. In the example above, Garrett the bike storeowner has ample experience with past sales. He doesn't know accounting or technical forecasting, but he knows his bicycle store and the bicycle business. He's aware of changes in the market, his own store's promotions, and other factors that business owners know. He's comfortable making educated guesses. In following example, the café startup entrepreneur makes guesses based on her experience as an employee.

Use past results as a guide. Use results from the recent past if your business has them. Start a forecast by putting last year's numbers into next year's forecast, and then focus on what might be different this year from next. Do you have new opportunities that will make sales grow? New marketing activities, promotions? Then increase the forecast. New competition, and new problems? Nobody wants to forecast decreasing sales, but if that's likely, you need to deal with it by cutting costs or changing your focus. Illustration 7-3 shows how that works in LivePlan.

What? You say you can't forecast because your business or product is new? Join the club. Lots of people start new businesses, or new groups or divisions or products or territories within existing businesses, and can't turn to existing data to forecast the future.

Think of the weather experts doing a 10-day forecast. Of course they don't know the future, but they have some relevant information and some experience in the field. They look at weather drivers such as high and low pressure areas, wind directions, cloud formations, and storms gathering elsewhere. They consider past experience, so they know how these same factors have generally behaved in the past. And they make educated guesses. When they project a high of 85 and low of 55 tomorrow, those are educated guesses.

You do the same thing with your new business or new product forecast that the experts do with the weather. You can get what data is available on factors that drive your sales, equivalent to air pressure and wind speeds and cloud formations. For example:

- To forecast sales for a new restaurant ([Sample Sales Forecast for a Restaurant](#) in a following section), first draw a map of tables and chairs and then estimate how many meals per mealtime at capacity, and in the beginning. It's not a random number; it's a matter of how many people come in. So a restaurant that seats 36 people at a time might assume it can sell a maximum of 50 lunches when it is absolutely jammed, with some people having lunch early and some later. And maybe that's just 20 lunches per day the first month, then 25 the second month, and so on. Apply some reasonable assumption to a month, and you have some idea.
- To forecast sales for a new mobile app, you might get data from the Apple and Android mobile app stores about average downloads for different apps. And a good web search might reveal some anecdotal evidence, blog posts and news stories perhaps, about the ramp-up of existing apps that were successful. Get those numbers and think about how your case might be different. And maybe you drive downloads with a website, so you can predict traffic on your website from past experience and then assume a percentage of web visitors who will download the app. (The following sections on [Sample Sales Forecast for a Website](#) and [Sample Sales Forecast for Email Marketing](#) offer more examples.)

So you take the information related to what I'm calling sales drivers, and apply common sense to it, human judgment, and then make your educated guesses. As more information becomes available—like the first month's sales, for example—you add that into the mix, and revise or not, depending on how well it matches your expectations. It's not a one-time forecast that you have to live with as the months go by. It's all part of the lean planning process.

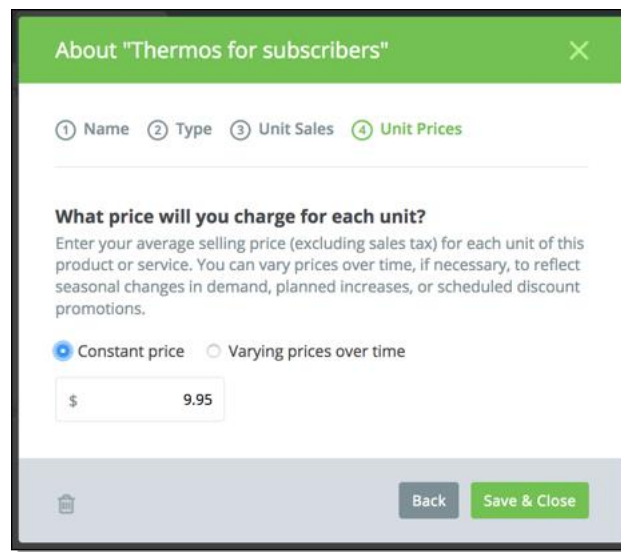
Sales forecast depends on product/service and marketing

Never think of your sales forecast in a vacuum. It flows from the strategic action plans with their assumptions, milestones, and metrics. Your marketing milestones affect your sales. Your business offering milestones affect your sales. When you change milestones—and you will, because all business plans change—you should change your sales forecast to match.

Step 3: Estimate Average Prices

The next step is a simple estimate of average unit prices. This is planning, not accounting, so keep it simple. You are working with averages, summary, and aggregation. In this bicycle store example, the average price of a bicycle is \$500. That's one number to summarize all bicycle transactions. You'll be able to adjust over time. Illustration 7-4 uses one average price for the entire forecast. LivePlan does allow you, as an option, to have varying prices over time. The bicycle store doesn't need that.

Illustration 7-4: Estimated Price per Unit in LivePlan



The screenshot shows a dialog box titled "About 'Thermos for subscribers'" with a close button (X) in the top right corner. Below the title is a progress bar with four steps: 1 Name, 2 Type, 3 Unit Sales, and 4 Unit Prices (which is highlighted in green). The main content area is titled "What price will you charge for each unit?" and includes a descriptive paragraph: "Enter your average selling price (excluding sales tax) for each unit of this product or service. You can vary prices over time, if necessary, to reflect seasonal changes in demand, planned increases, or scheduled discount promotions." Below this text are two radio button options: "Constant price" (which is selected) and "Varying prices over time". At the bottom of the form is a text input field containing "\$ 9.95". At the very bottom of the dialog box are two buttons: "Back" and "Save & Close".

Step 4: Estimate Average Direct Costs

Now estimate direct costs, also called COGS, or cost of goods sold, or unit costs. These are costs that the business incurs only in delivering what it sells. In a bicycle shop, it's what is paid for the bicycles, accessories, clothes, and parts that it sells. For a bookstore, it's what is paid for the books it sells. For a taxi business, it's the gasoline and routine maintenance. Direct costs are useful for comparison basis.

LivePlan gives you some obvious choices for how to estimate those direct costs. In Illustration 7-5, the *Soup There It Is* plan estimates the average unit cost per subscriber per month.

Illustration 7-5: Estimating Direct Costs in LivePlan

The screenshot shows a mobile app interface for adding a direct cost. The form is titled 'Tell us about this direct cost' in a green header bar with a close button (X). The form contains several sections: 1. 'What do you want to call it?' with a text input field containing 'Ingredients & foodstuffs' and a small grey box with the number '231'. 2. 'What sort of cost is this?' with a subtext explaining that breaking down costs by revenue stream shows profitability. It has two radio buttons: 'General cost' (unselected) and 'Cost for a specific revenue stream' (selected). 3. 'Which revenue stream?' with a dropdown menu showing 'Subscriptions'. 4. 'How do you want to enter it?' with three radio buttons: 'Constant amount per customer' (selected), 'Varying amounts per customer' (unselected), and '% of this stream's revenue' (unselected). 5. 'How much will it cost?' with a text input field showing '\$ 27.50'. At the bottom, there is a trash icon, a 'Cancel' button, and a green 'Save & Close' button.

Tell us about this direct cost ✕

What do you want to call it?

Ingredients & foodstuffs 231

What sort of cost is this?

If you break down your direct costs by revenue stream, rather than just entering them as overall costs, you can see how profitable each revenue stream is.

☐ General cost ☒ Cost for a specific revenue stream

Which revenue stream?

Subscriptions

How do you want to enter it?

☒ Constant amount per customer
☐ Varying amounts per customer
☐ % of this stream's revenue

How much will it cost?

\$ 27.50

✕ Cancel Save & Close

When in doubt, LivePlan can help you with these estimates. It includes a database of benchmarks that offer industry standards for key numbers. For example, Illustration 7-6 below shows benchmarks for mobile food services, which is roughly what applies to *Soup There It Is*.

Illustration 7-6: Use the LivePlan Industry Benchmarks

PITCH

PLAN

FORECAST

BENCHMARKS

SCHEDULE

DASHBOARD

OPTIONS

Industry Benchmarks

Compare benchmarks to results from: Jan 2019

Mobile Food Services (NAICS 722330)

Change

Northeastern U.S.

Change

All sizes

Change

PROFIT METRICS	BENCHMARK	YOUR FORECAST	VS BENCHMARK	YOUR RESULTS	VS BENCHMARK
Gross margin	63%	No Data	—%	This information will appear after you connect to your accounting solution or enter your actual results manually. Go to Dashboard	
Operating margin	3%	No Data	—%		
Net profit margin	5%	No Data	—%		

CASH METRICS	BENCHMARK	YOUR FORECAST	VS BENCHMARK	YOUR RESULTS	VS BENCHMARK
Average days to get paid	5 days	15 days	↑ 195%	This information will appear after you provide your actual results.	
Average days to pay	14 days	23 days	↑ 63%		
Inventory on hand	10 days	No Data	—%		

PRODUCTIVITY METRICS	BENCHMARK	YOUR FORECAST	VS BENCHMARK	YOUR RESULTS	VS BENCHMARK
Monthly revenue per employee	No Data	No Data	—%	This information will appear after you provide your actual results.	
Monthly net profit per employee	No Data	No Data	—%		

SPENDING METRICS	BENCHMARK	YOUR FORECAST	VS BENCHMARK	YOUR RESULTS	VS BENCHMARK
Revenue spent on rent	8%	No Data	—%	This information will appear after you provide your actual results.	
Revenue spent on marketing	0%	No Data	—%		
Revenue spent on payroll	20%	No Data	—%		

OTHER METRICS	BENCHMARK	YOUR FORECAST	VS BENCHMARK	YOUR RESULTS	VS BENCHMARK
Quick ratio	1.9	14	↑ 619%	This information will appear after you provide your actual results.	
Current ratio	2.2	14	↑ 522%		

Now viewing benchmarks based on three-year averages of industry data.

Fill in All the Assumptions and You Have a Sales Forecast

LivePlan guides you through these assumptions for each of your rows of sales, and from there generates a complete sales forecast as shown here for the sample company. Illustration 7-7 shows the *Soup There It Is* sales forecast. Illustration 7-8 shows how LivePlan draws a bar charts, automatically, to illustrate that forecast. Illustration 7-9 shows the summarized forecast that LivePlan includes in a plan document.

Illustration 7-7: Sample *Soup There It Is* Sales Forecast

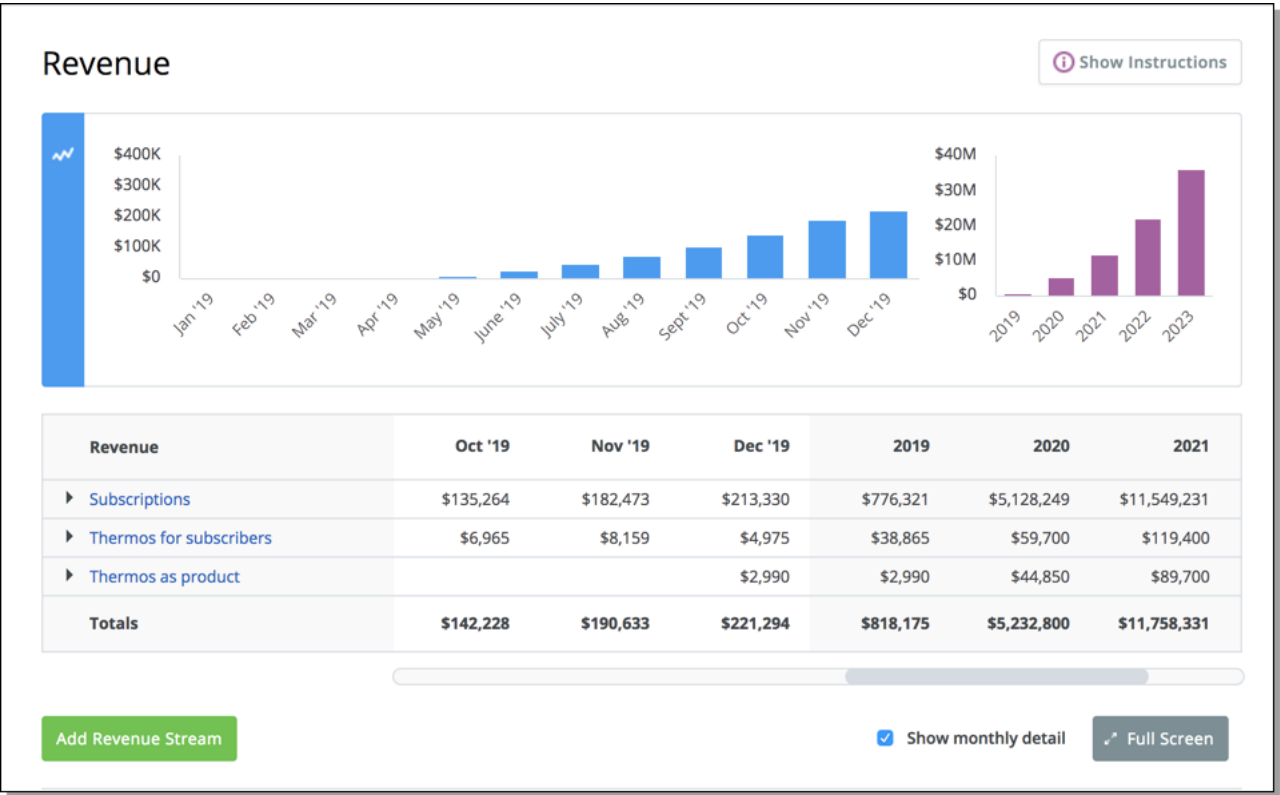


Illustration 7-8: Sales Forecast Bar Chart

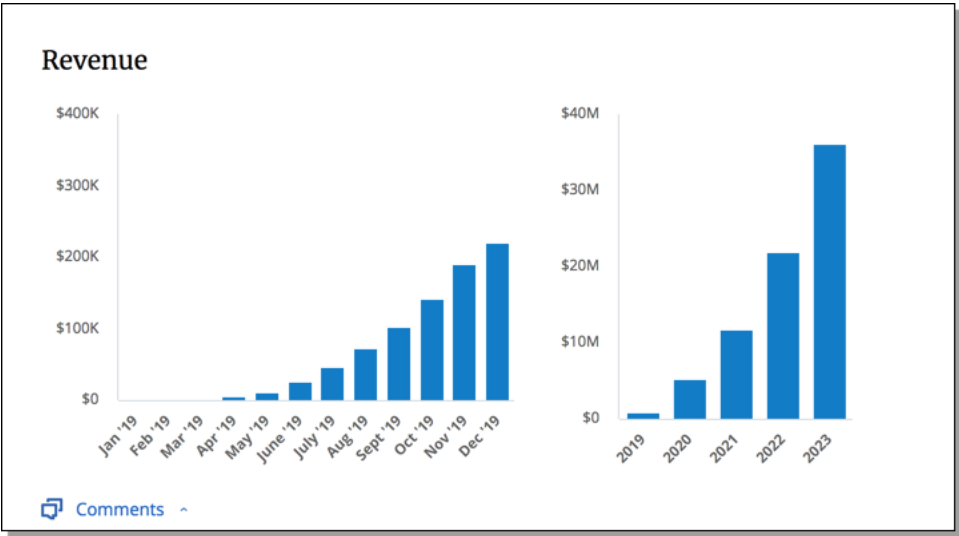



Illustration 7-9: *Soup There It Is* Revenue Forecast in Plan Output

	2019	2020	2021
Revenue			
Subscriptions	\$776,321	\$5,128,249	\$11,549,231
Thermos for subscribers	\$38,865	\$59,700	\$119,400
Thermos as product	\$2,990	\$44,850	\$89,700
Total Revenue	\$818,175	\$5,232,800	\$11,758,331
Direct Cost			
Ingredients & foodstuffs	\$213,595	\$1,410,974	\$3,177,627
Thermos for subscribers	\$13,085	\$20,100	\$40,200
Thermos retail	\$670	\$10,050	\$20,100
Delivery	\$155,264	\$1,025,650	\$2,309,846
Direct Labor	\$51,000	\$378,000	\$793,800
Total direct costs	\$433,614	\$2,844,774	\$6,341,574
Gross margin	\$384,561	\$2,388,026	\$5,416,757
Gross margin %	47%	46%	46%

 Comments ^

Sample Sales Forecast for a Restaurant

Magda is developing a lean plan for a café she wants to open in an office park. She wants a small locale, just six tables of four. She wants to serve coffee and lunches. She hasn't contracted the locale yet, but she has a good idea of where she wants to locate it and what size she wants, so she wants to estimate realistic sales. She assumes a certain size and location and develops a base forecast to get started.

Establishing a base case

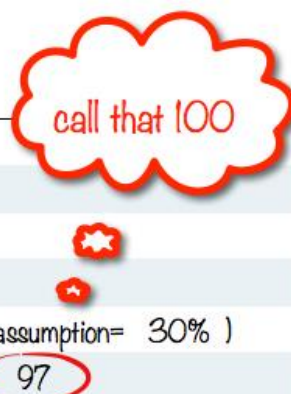
She starts with understanding her capacity. She does some simple math. She estimates that with six tables of four people each, she can do only about 24 sit-down lunches in an average day, because lunch is just a single hour. And then she adds to-go lunches, which she estimates will be about double the table lunches, so 48 per day. She estimates lunch beverages as .9 beverages for every lunch at the tables, and only .5 beverages for every to-go lunch. Then she calculates the coffee capacity as a maximum of one customer every two minutes, or 30 customers per hour; and she estimates how she expects the flow during the morning hours, with a maximum 30 coffees during the 8-9 a.m. hour. She also estimates some coffees at lunch, based on 3 coffees for every 10 lunches. You can see the results in Illustration 7-10, as a quick worksheet for calculations.

Illustration 7-10: Café Sales Forecast Assumptions

At tables	24	Tables	6
Togo	48	Seats per table	4
Beverages per lunch	0.90		
Beverages togo	0.50		

Monthly units at capacity			
Table lunch	530		Workdays
togo	1056	1586	22
Table lunch beverages		480	
Togo Beverages		530	1010
Coffee	2100		

Coffee						
Coffee per hour at peak			30			
Daily coffee weekday						
7-8	8-9	9-10	10-11	11-12	Lunches (assumption= 30%)	
20	30	20	10	10	7.2	97



Where do those estimates come from? How does Magda know? Ideally, she knows because she has experience. She's familiar with the café business as a former worker, owner, or close connection. Or perhaps she has a partner, spouse, friend, or even a consultant who can make educated guesses. And she can also research her market with standard information on demographics, and so on. And it helps to break the estimates down into smaller pieces, as you can see Magda has done here.

And, by the way, there is a lesson here about estimating and educated guesses: Magda calculates 97.2 coffees per day. That's really 100. Always round your educated guesses. Exact numbers give a false sense of certainty.

Café monthly assumptions

Magda then estimates monthly capacity. In Illustration 7-10 you'll see that she estimates 22 workdays per month, and multiplies coffees, lunches, and beverages, to generate the estimated unit numbers for a baseline sample month.

So that means the base case is about 1,500 lunches, about 1,000 beverages, and about 2,000 coffees in a month. Before she takes the next step, Magda adds up some numbers to see whether she should just abandon her idea. At \$10 per lunch and \$2 per coffee or beverage, that's roughly \$15,000 in lunches, \$2,000 in lunch beverages, and \$4,000 in coffees in a month. She probably calls that \$20,000 as a rough estimate of a true full capacity. She could figure on a few thousand in rent, a few thousand in salaries, and then decide that she should continue planning, from the quick view, as if it could be a viable business. (And that, by the way, in a single paragraph, is a break-even analysis.)

From base case to sales forecast

With those rough numbers established as capacity, some logic for what drives sales, and how the new business might gear up, Magda then does a quick calculation of how she might realistically expect sales to go, compared to capacity, during her first year. That's in Illustration 7-11:

Illustration 7-11: Café Capacity Assumptions

Capacity	Jan	Feb	Mar	Apr	May	June	July	Aug	Sep	Oct	Nov	Dec
Coffee	63%	63%	63%	63%	59%	50%	49%	49%	63%	71%	71%	63%
Lunch	42%	63%	65%	69%	72%	67%	61%	61%	75%	83%	83%	61%
Beverage	46%	69%	72%	76%	79%	74%	67%	67%	82%	91%	91%	67%

Month-by-month estimates for the first year

All of which brings us to a realistic sales forecast for Magda's café in the office park. Turning to LivePlan, we input the row definitions, unit sales estimates, average prices, and average direct costs to create the complete sales forecast.

Illustration 7-12 shows the input for the row definitions. This is based on Magda's calculations above, with an additional row added for "other," which is t-shirts and mugs and such.

Illustration 7-12: A Second Example of Revenue Streams

Revenue	Jan '15	Feb '15	Mar '15	Apr '15	May '15	June '15
▶ Coffee	\$2,640	\$2,640	\$2,640	\$2,640	\$2,480	\$2,100
▶ Lunches	\$6,600	\$10,000	\$10,380	\$11,000	\$11,350	\$10,640
▶ Beverages	\$924	\$1,394	\$1,454	\$1,542	\$1,590	\$1,490
▶ Other	\$500	\$550	\$605	\$665	\$730	\$805
Totals	\$10,664	\$14,584	\$15,079	\$15,847	\$16,150	\$15,035

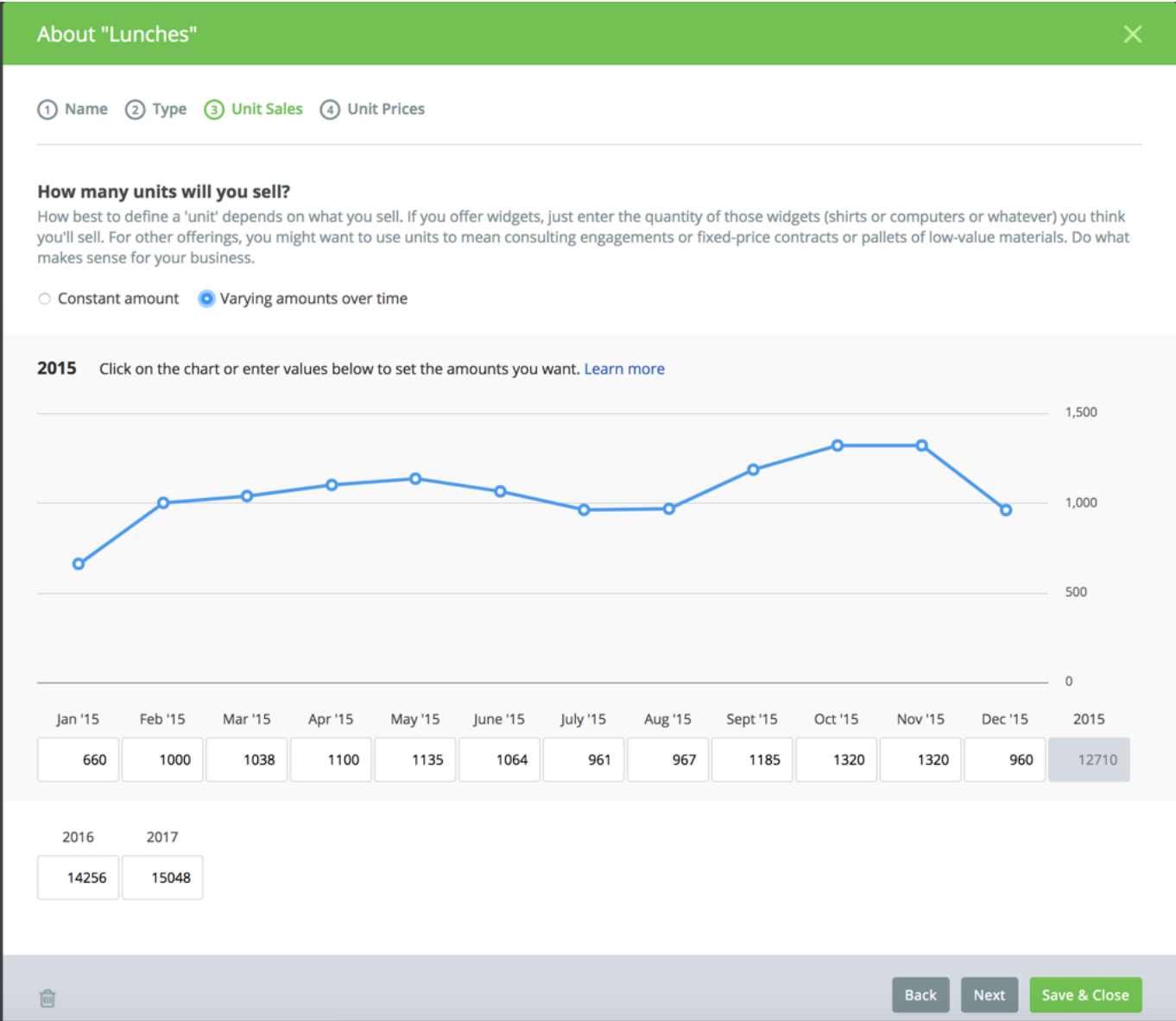
Add Revenue Stream

☒ Show monthly detail

Full Screen

And Illustration 7-13 shows the data input for unit sales of lunches, one of the four streams of sales:

Illustration 7-13: Estimating Unit Sales for Café Lunches



Notice that Magda is being realistic. Although her capacity looks like about 1,600 lunches per month, she knows it will take a while to build the customer base and get the business up to that level. She starts out at only about half of what she calculated as full sales; and she gets closer to full sales toward the end of the first year, when her projected sales are more than \$19,000.

Important: these are all just rough numbers, for general calculations. There is nothing exact about these estimates. Don't be fooled by how exact they appear.

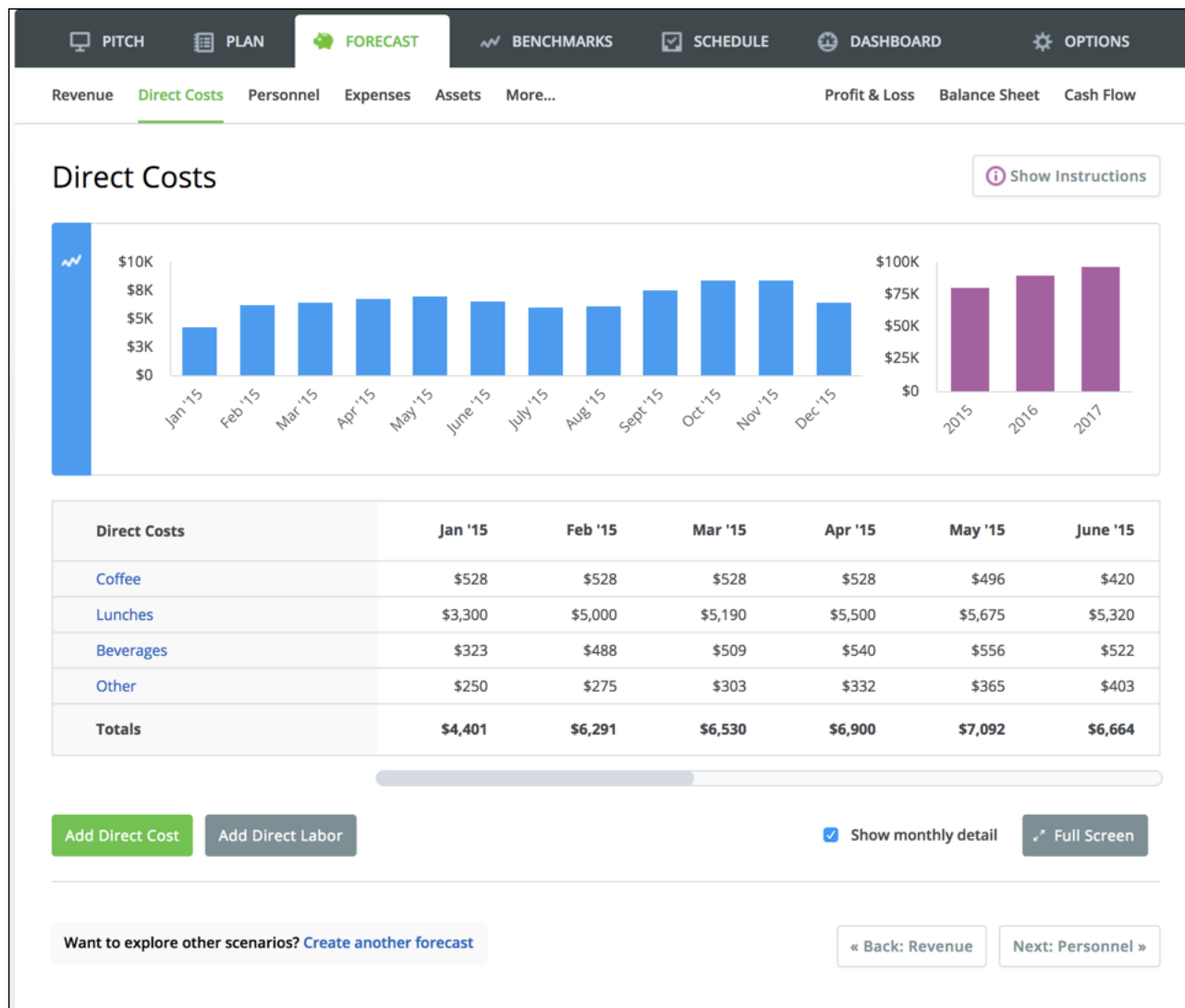
Notice how Magda is working with educated guessing. She isn't turning to some magic information source to find out what her sales will be. She doesn't assume there is some magic "right answer." She isn't using quadratic equations and she doesn't need an advanced degree in calculus. She does need to have some sense of what to realistically expect. Ideally she's worked in a restaurant or knows somebody who has, so she has some reasonable information to draw on.

Estimating direct costs

Along with sales, it's advisable to estimate direct costs, also called COGS, or cost of goods sold, or unit costs. These are costs that the business incurs only in delivering what it sells. In Magda's case, it's what she pays for the coffee beans, beverages, bread, meat, potatoes, and other ingredients in the food she serves. For a bookstore, it's what is paid for the books it sells. For a taxi business, it's the gasoline and routine maintenance. Direct costs are useful for comparison basis.

So, with her unit sales estimates already there, Magda needs only add estimated direct costs per unit to finish the forecast. The math is as simple as it was for the sales, multiplying units times per-unit direct cost. Then it adds the rows and the columns appropriately. Illustration 7-14 shows the finished example (with just the leftmost columns showing for visibility's sake):

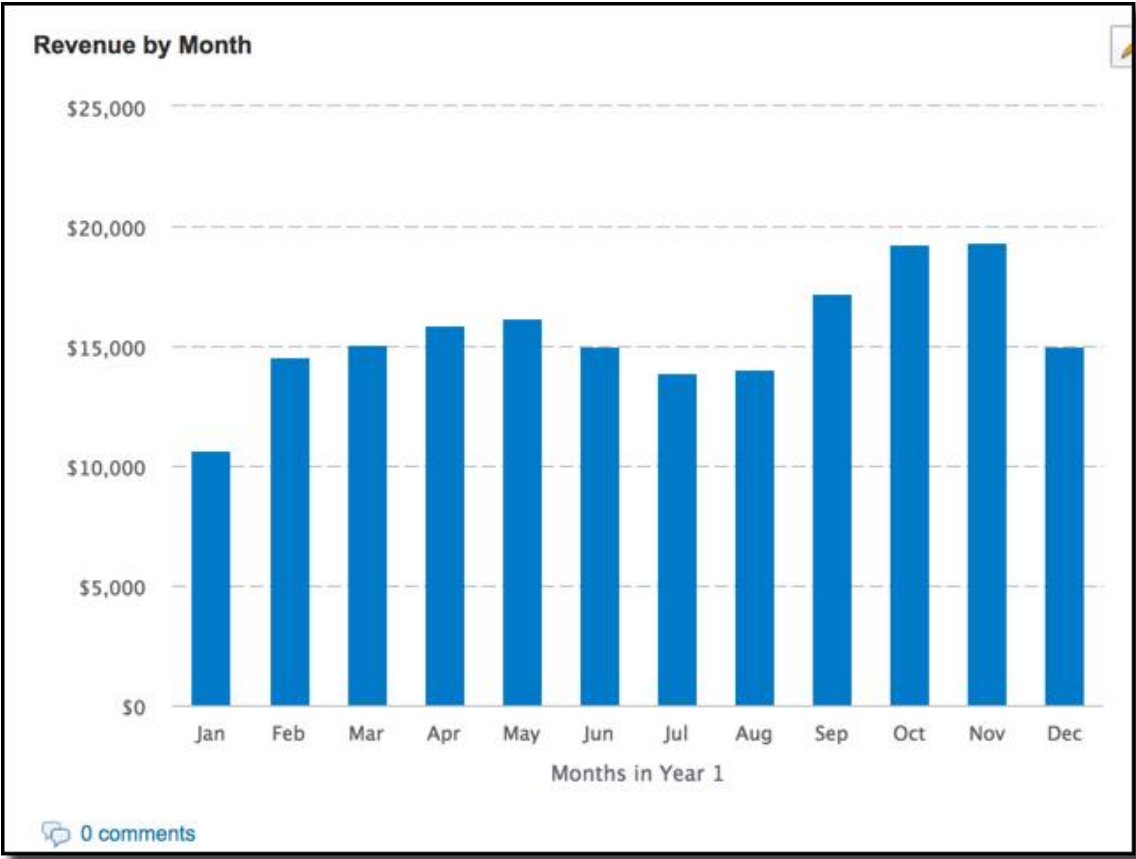
Illustration 7-14: Café Sales Direct Costs Forecast in LivePlan



Here again you see the idea of educated guessing, estimates, and summary. Magda doesn't break down all the possibilities for lunches into details, differentiating the steak sandwich from the veggie sandwich, and everything in between; that level of detail is unmanageable in a forecast. She estimates the overall average direct cost. Coffee costs an average of 40 cents per cup, and lunches about \$5.00. She estimates because she's familiar with the business. And if she weren't familiar with the business, she'd find a partner who is, or do a lot more research.

Illustration 7-15 shows the LivePlan chart illustrating total sales by month for the next 12 months.

Illustration 7-15: Café Sales Forecast Chart



And Illustration 7-16 shows the final forecast table, by year, as it would show in the lean business plan.

Illustration 7-16: Café Sales Forecast in Plan

Revenue Forecast Table			
	FY2015	FY2016	FY2017
Revenue			
Coffee	\$30,544	\$32,000	\$34,000
Lunches	\$127,100	\$142,560	\$150,480
Beverages	\$17,794	\$19,958	\$21,068
Other	\$10,715	\$12,500	\$15,000
Total Revenue	\$186,153	\$207,018	\$220,548
Direct Cost			
Coffee	\$6,109	\$6,400	\$6,800
Lunches	\$63,550	\$71,280	\$75,240
Beverages	\$6,228	\$6,985	\$7,374
Other	\$5,358	\$6,250	\$7,500
Total Direct Cost	\$81,245	\$90,915	\$96,914
Gross Margin	\$104,908	\$116,103	\$123,634
Gross Margin %	56%	56%	56%

Sample Sales Forecast for Email Marketing

The idea with forecasting something new is to start with something that's easy to guess, then go on from there. That's what Magda does in the example above, going from restaurant layout with chairs and tables, to times of day, and days per week. This next example projects unit sales from email marketing. Here again, the key is to track the assumptions.

Warning: This is very simplified! May the email marketing experts forgive me for making it look this simple. It isn't; but the basic numbers follow these basic principles.

So here's a sample sales forecast for the projected unit sales of the first few months of a product to be marketed via email.

Illustration 7-17: Email Sales Forecast Assumptions

Email Marketing Assumptions	Jan	Feb	Mar	Apr
Emails sent	20,000	25,000	30,000	40,000
Email opens	35%	36%	37%	38%
Email clicks	8.0%	8.4%	8.8%	9.0%
Website views	560	756	982	1,360
Conversion rate	0.5%	0.6%	0.6%	0.6%
Unit sales	3	5	6	

1. It starts of course with how many emails are sent. The assumption here is that the marketing department sends out 20,000 emails the first month, 25,000 the next month, and so forth. And let's remember that while it's easy to type numbers into a spreadsheet, execution requires an effective email message, design and formatting, and a good list of email addresses of real prospects. Targeting is essential.
2. We put assumptions for how many people open the emails into the second row. And the assumption shown for January, by the way, is amazingly high, and quite unrealistic. A business would have to be sending emails to a list of opted-in email addresses for customers or prospects who like this sender a lot. Available information on average emails opened, from MailChimp and other vendors of email services, runs more like 15% to 25%. The numbers here are high.
3. We use the third row for our assumption for how many people click the link on the email. There too, this example is very optimistic. Normal rates rarely get above 2%.
4. Next is website views. With emails sent, emails opened as a percentage, and clicks as a percentage, we can project how many people click an email link and arrive at a website. In January, for example, we take $20000 \times .35 \times .08 = 560$. Here again, the math is simple. The business behind it—a good email list, a good email, subject line, text, and links, and offering—is not simple.

5. Then we project a conversion rate, which is how many people who see the offer on the web choose to buy. The 0.5% (one half of one percent) assumption here is not unusually low. Actual conversion rates depend on how well targeted the people are who arrive at the website, how attractive the offer is, and many other marketing and sales variables.
6. Finally, in the last row, we arrive at projected sales. The indication here is that sending 20,000 emails produces the small unit sales shown here in the bottom row.

From here we would take the unit sales resulting from these assumptions to the main sales forecast, in LivePlan, with the structure we use for the sample sales forecast above: units, prices, sales, direct costs per unit, and direct costs. The results would look a lot like the ones for Magda, in [Sample Sales Forecast for a Restaurant](#); and Garrett, the bicycle retailer, in [LivePlan Sales Forecast](#).

Sample Sales Forecast for a Website

The next sample sales forecast shows assumptions for a web business. Here too, we look at the key assumptions that lead to the unit sales forecast. The point is we don't pull a forecast out of thin air; we base it on some sales drivers that we can predict, and, to some extent control—or at least track and revise. We can look at these in detail below.

First, estimate the drivers for web traffic

Clearly the web business sales assumptions depend on web traffic. In the first two rows of the forecast, we project reasonable numbers of web visits based on past web experience, search engine optimization (SEO), and links that we can predict. These are in Illustration 7-18. In this case we break them into two categories:

Illustration 7-18: Website Sales Assumptions

Web Forecast	Jan	Feb	Mar	Apr
Website organic	200	300	400	500
Website social media	350	500	700	900
Website PPC	2,000	2,000	2,000	2,000
Total website visits	2,550	2,800	3,100	3,400
Website conversion rate	0.5%	0.6%	0.6%	0.6%
Total unit sales	13	17	19	20
PPC Assumptions				
PPC cost per click	\$1.00	\$1.05	\$1.10	\$1.15
PPC budget	\$2,000	\$2,200	\$2,400	\$2,600

1. First, website visits from organic search, based on the site, its contents, the SEO, and so forth. This projection may be optimistic because getting 200 people per month at the outset isn't as easy as writing numbers into a spreadsheet. It takes marketing. Still, it's an assumption we can track.
2. Second, website visits from social media. This assumes active engagement, posts, links, and updates on Facebook, Twitter, and other social media sites.

More about the pay-per-click assumptions

As you can see in the bottom two rows of the forecast, pay-per-click web traffic depends on two factors: how much you spend on pay-per-click advertising, and how much you pay for each click. A click in this case means somebody who was browsing on some other website, or who did a web search for some specific search word or phrase, and clicked a link that went to your website. If you are not familiar with this kind of online marketing, there's a good summary in Wikipedia under "pay per click."

I base my assumptions here on bid-based pay-per-click systems, such as what Google uses. As you set up the campaign, you use a system that has you bid on how much you'll pay for each click you get from the paid area of search results when a web search requests a specific keyword. For example, the illustration here shows what happened when I searched for the term "restaurant in Eugene OR." Two businesses have paid for the ad placement at the top. One is a restaurant supply business, the other a yellow-pages index. If I clicked on either one, I would go to that website and the business would be charged the pay-per-click amount. The rest of the search results are Google's favorites, based on Google search algorithms, as the most useful.

Illustration 7-19: Pay-Per-Click Example

Restaurant Equipment - 86,317 Items for Your Restaurant
Ad www.webrestaurantstore.com/Equipment
4.7 ★★★★★ rating for webrestaurantstore.com
*Same Day Shipping on Equipment!
Ratings: Shipping 9/10 - Website 8.5/10 - Quality 8/10
Refrigeration Coffee Makers
Warming Equipment Commercial Ovens

Restaurants in Eugene, OR
Ad www.dexknows.com/
Food to suit your mood. Find local restaurants here!
Eugene, OR - Salem, OR - Gresham, OR - Portland, OR

Best Eugene, OR Restaurants - TripAdvisor
www.tripadvisor.com > ... > Oregon (OR) > Eugene > TripAdvisor
Dining in Eugene, Oregon: See 7311 TripAdvisor traveler reviews of 524 Eugene restaurants and search by cuisine, price, location, and more.

Best Eugene Restaurants - Eugene - Urbanspoon
www.urbanspoon.com/n/134/15305/Eugene-restaurants > Urbanspoon
Eugene Restaurants. Reviews from critics, food blogs and fellow diners.
Eugene - Smoothies - Seafood - German

Eugene » Restaurants - Yelp
www.yelp.com/c/eugene-or-us/restaurants > Yelp
The Best Restaurants in Eugene on Yelp. Read about places like: The Tap & Growler, Mame, The Sandwich League, The Cannery, Cafe 440, Cornbread Cafe, ...

Paid per click advertising

Conversion Rate and Projected Sales

The row in Illustration 7-18 labeled "Website conversion rate" holds the very important assumption about the percentage of website visitors who choose to buy the product. That assumption is half a percent (0.5%) for the first month, increasing to six tenths of a percent (0.6%) in the second month. The total unit sales estimate in "Total unit sales" comes from multiplying the conversion rate in "Website conversion rate" by the estimated web traffic in the row labeled "Total website visits." So, for example, the projected 13 units for January is one half of one percent of the estimated 2,550 web visits.

Chapter 8: Budget Your Spending

*“Don't tell me what you value, show me your budget,
and I'll tell you what you value.”*

~Joe Biden

Along with the revenue forecast, you need to plan and manage spending. Revenue is money coming in, and spending is money going out.

By the way, the word budget, as I use it here, is exactly the same as forecast. The difference between the two is just custom. I could just as easily refer to revenue and spending budgets, or revenue and spending forecasts, as revenue forecast and spending budget. Most people think of them the way I'm using them here, using the term *forecast* for revenue and *budget* for spending.

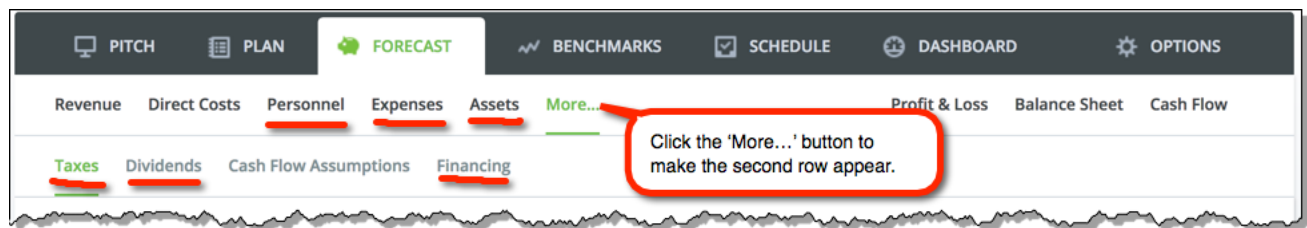
There are several ways to spend money in the normal course of business.

- The first is costs, direct costs, what you spend on what you sell. LivePlan puts those in the Sales Forecast (where they belong). You saw them in the previous section, covering the sales forecast.
- The second is normal expenses, also called operating expenses, such as rent, utilities, advertising, and payroll. LivePlan handles these very well in its Budget feature, which I'll show you in this chapter.
- The third is buying assets, such as vehicles, equipment, buildings, furniture, and so forth. The businessdictionary.com defines assets as “Something valuable that an entity owns, benefits from, or has use of, in generating income.” LivePlan also handles these in its budget feature, so I'll show you these in this section as well.
- The fourth is what you spend to repay debts. The interest you pay on debts is an expense, and is deductible, and impacts your profit and loss. When you have interest expenses, LivePlan includes those automatically as expenses. However, the money you spend to repay those debts, what we call the principal, is not deductible, does not affect profit and loss, but still costs money; so it affects your cash flow. LivePlan handles loans and interest in a separate area, which I'll show you in a following section.

The LivePlan Budget Functions

Illustration 8-1 here shows how LivePlan helps you estimate spending by clicking the links shown for personnel, expenses, purchase of assets, taxes, dividends, and debt repayment. Each of these is a link in the forecast that opens up guided assumptions.

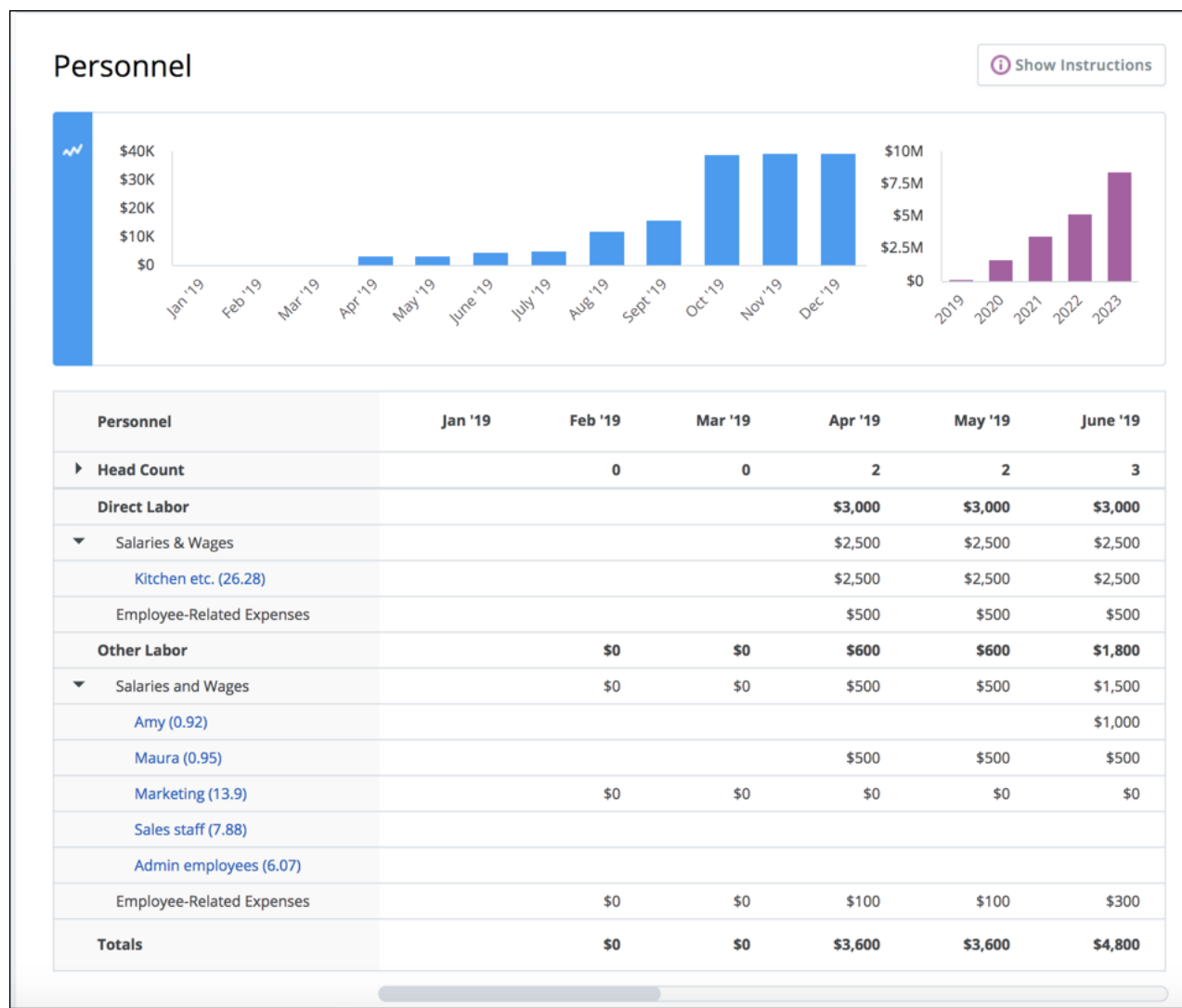
Illustration 8-1: Budget Spending Categories



Personnel: Estimating payroll and related expenses

Click the LivePlan “Personnel” link to estimate payroll, or wages and salaries, or compensation, plus related costs for payroll taxes, insurance, and benefits (called “Payroll burden”). People expenses are serious fixed cost and business responsibility. Illustration 8-2 shows the *Soup There It Is* plan for gross salary.

Illustration 8-2: Estimating Gross Salary



LivePlan also includes a simple calculation for payroll taxes, insurance, and benefits, which applies a percentage to gross salary. The *Soup There It Is* founders estimate 20% for this, as shown in Illustration 8-3. In their case, however, the founders include only payroll taxes and benefits as the burden, not insurance. They chose to do it that way because health insurance is a significant expense, which they decided to estimate and track separately (it shows up as its own row in operating expenses, as we see in Illustration 8-4).

Illustration 8-3: Estimating Employee Expenses

Change Burden Rate

What is burden rate?

Salaries and wages are far from the only expenses involved in having employees. Depending on your location, other employee-related expenses may include payroll taxes, worker's compensation insurance, health insurance, and other benefits and taxes.

These expenses need to be reflected in your financial projections. It's not necessary to try to predict these expenses in precise detail. Instead financial plans typically use what's called a "burden" rate. This is just a simple percentage of total employee compensation that is added to cover these related expenses. (Note that the burden rate does not apply to contract workers.)

In the profit and loss statement, you can see the calculated amount — total employee compensation multiplied by the burden percentage — on the Employee- Related Expenses line.

Enter your estimated burden rate

20 %

Cancel

Save & Close

Notice in Illustration 8-4 that LivePlan includes the totals from the Personnel Plan in the tables it generates for the expense budget. And if you look closely (it may take a calculator) at the expense row "Employee Related Expenses" and compare that amount to the total Salary and Wages, you'll see that it's the same estimated 20 percent of payroll. LivePlan does this for you automatically.

Regarding insurance expenses, especially employees' health insurance, you can choose to include that spending as part of the burden, or list it separately as its own row in operating expenses.

Illustration 8-4: LivePlan Expense Summary

Projected Profit & Loss	Jan '19	Feb '19	Mar '19	Apr '19	May '19	June '19
► Revenue				\$5,147	\$10,352	\$25,240
► Direct Costs				\$5,425	\$7,834	\$14,704
Gross Margin				(\$278)	\$2,517	\$10,537
Gross Margin %				(5%)	24%	42%
▼ Operating Expenses	\$4,000	\$5,700	\$6,090	\$6,162	\$7,684	\$13,209
► Salaries & Wages		\$0	\$0	\$500	\$500	\$1,500
Employee Related Expenses		\$0	\$0	\$100	\$100	\$300
Kitchen time		\$2,500	\$2,500	\$2,500	\$2,500	\$2,500
Facebook ads		\$2,200	\$2,090	\$1,540	\$1,570	\$1,650
Commissions				\$750	\$1,461	\$3,473
Office equipment etc.	\$3,000					
Professionals: Legal, CPA etc.	\$1,000	\$1,000	\$1,500			
Insurance				\$257	\$518	\$1,262
Other expenses				\$515	\$1,035	\$2,524
Operating Income	(\$4,000)	(\$5,700)	(\$6,090)	(\$6,440)	(\$5,167)	(\$2,671)
Interest Expense						
Income Taxes	\$0	\$0	\$0	\$0	\$0	\$0
Total Expenses	\$4,000	\$5,700	\$6,090	\$11,586	\$15,520	\$27,912
Net Profit	(\$4,000)	(\$5,700)	(\$6,090)	(\$6,440)	(\$5,167)	(\$2,671)
Net Profit %				(125%)	(50%)	(11%)

Add Revenue Stream
Add Direct Cost
Add Personnel
Add Expense
☒ Show monthly detail
Full Screen

Expenses

Let's look first at the most common kind of budget, the expense budget, which is essentially about what we call the operating expenses.

LivePlan gives you guided input of all major expenses, in as much detail as you care to plan. You set the expense categories as you like them, at a level of detail you'll be able to use.

If at all possible, set your expenses in LivePlan to match the categories you use for your accounting and reporting. This will give you an enormous benefit later, as you use the plan to run the business, because as long as you use one of the several major small business accounting software packages,

LivePlan will be able to connect your plan to your accounting and give you automatic plan vs. actual charts whenever you want. This is great for regular review and revisions.

All the numbers are educated guesses. The business owners or startup founders know their business. As they develop their first lean plan, they need to have a good idea of what they pay for rent, marketing expenses, leased equipment, and so on. And if you don't know these numbers for your business, find out. If you don't know rents, talk to a broker, see some locations, and estimate what you'll end up paying. Do the same for utilities, insurance, and leased equipment: make a good list, call people, and take a good educated guess.

Illustration 8-5 shows how LivePlan manages the estimated expenses. You can click to edit any of the categories—ongoing changes are part of good business planning.

Illustration 8-5: LivePlan Estimated Expenses

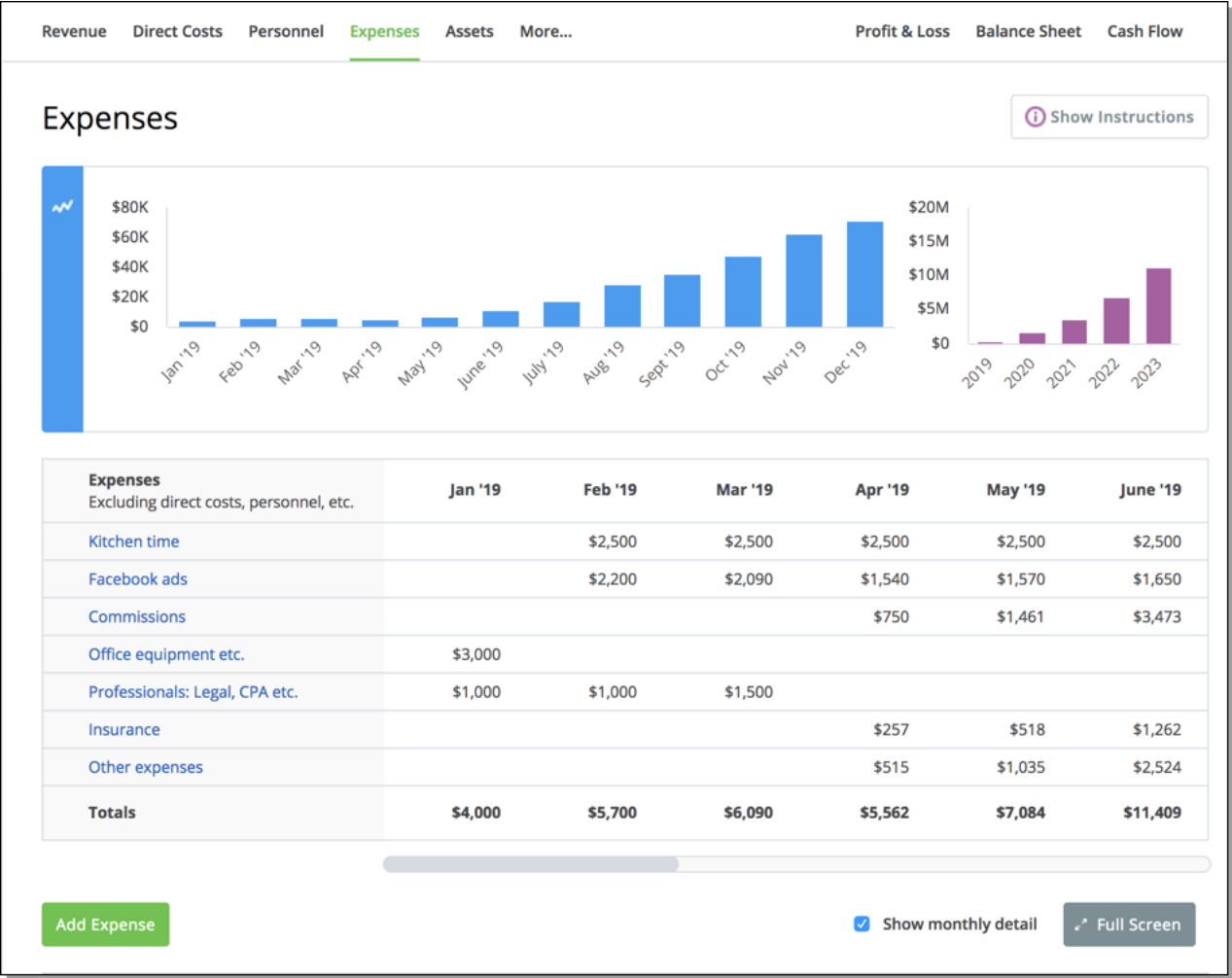


Illustration 8-6 shows what happens when you click on a category to edit the estimates month by month and year by year. These are the expenses for renting commercial kitchen time. The *Soup There It Is* team chooses to estimate expenses as varying amounts for each period, rather than as a standard amount every month, one-time expense, or percent of revenue. For your case, choose which pattern seems most practical.

Illustration 8-6: Estimating Expenses with LivePlan

Tell us about this expense

What do you want to call it?

kitchen time

243

What sort of expense is this?

If you identify your rent and marketing expenses, you can see industry standards for them in benchmarks.

☒ Rent or lease

☐ Marketing

☐ Other expense

How do you want to enter it?

☐ Constant amount

☒ Varying amounts over time (\$)

☐ One-time amount

☐ % of overall revenue

☐ % of specific revenue stream

How much will you spend on it?

2019

Click on the chart or enter values below to set the amounts you want. [Learn more](#)

5,000

4,000

3,000

2,000

1,000

0

Jan '19

Feb '19

Mar '19

Apr '19

May '19

June '19

July '19

Aug '19

Sept '19

Oct '19

Nov '19

Dec '19

2019

2500

2500

2500

2500

2500

2500

4000

4000

4000

4000

4000

35000

2020

2021

2022

2023

60000

60000

120000

240000

Cancel

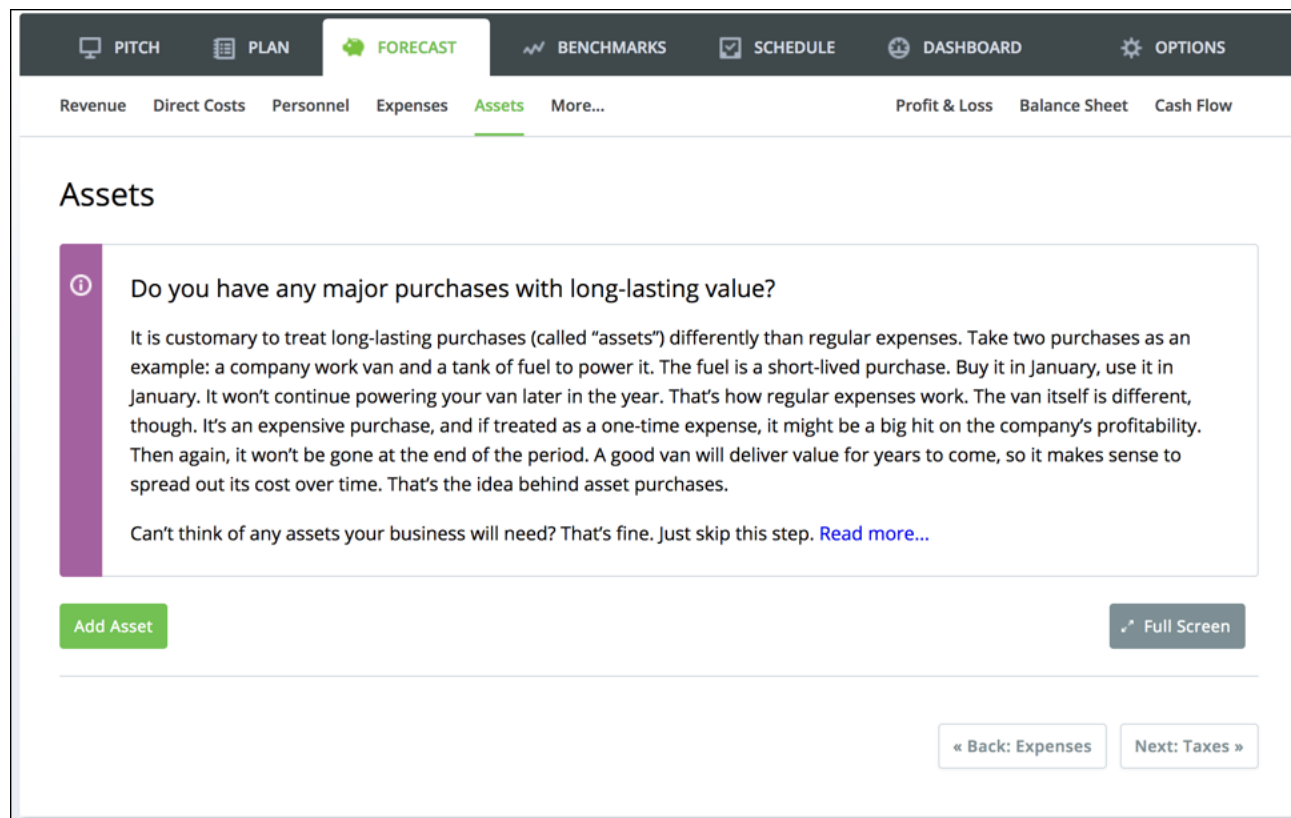
Save & Close

Purchasing Assets is also Spending Money

LivePlan has a simple feature for managing the amount and timing of asset purchases such as land, plant or facilities, major equipment, vehicles, and so forth.

91

Illustration 8-7: Major Purchases in LivePlan



Major purchases are not expenses. They are assets. This is a matter of standard accounting and finance, something that isn't intuitive for all, but is dictated by tax code and what we call GAAP (for Generally Accepted Accounting Principles). Of course, writing a check to buy an asset feels to you, the business owner, very much the same as writing a check to pay an expense. However, purchasing assets is not tax deductible and does not affect the formal Profit and Loss of the company. Since we have to live with the standard accounting on this point, LivePlan handles this correctly. These major purchases do affect cash flow, but they do not show up on Profit and Loss. They do affect the financial position of the company, so of course you estimate the amounts carefully, and include them in plan-vs.-actual tracking later on. LivePlan includes it as well, in the Dashboard feature that tracks plan-vs.-actual by connecting to your accounting.

Other Assets

Not all asset purchases are major purchases. Not all asset purchases are easy to predict ahead of time. Simplifying assumptions are very useful in planning, so LivePlan has an option for planning on money for

regular purchase of current assets without having to set each one apart as a major purchase. It is a very simple guided input, a matter of typing in assumptions. Just click the “Add a Current Asset” as shown in Illustration 8-8, and then type your assumptions when the input comes up.

LivePlan will guide you through the input, and automatically track the related spending, accounting, and cash flow. It will also ask you for assumptions to determine the automatic replenishing of current assets. LivePlan makes the simplifying assumption that current assets are replenished, not depreciated; so spending to replenish a current asset shows up in expenses.

Illustration 8-8: Estimating Current Assets

About "Soup kitchen expendibles" X

① Name ② Price ③ Type

What type of asset is this?
The balance sheet distinguishes between "current" and "long term" assets. Current assets, such as an annual service contract, are used up in 12 months or less. Long-term assets, such as a company car or an expensive piece of equipment, continue to provide value for years.

☐ Long term ☒ Current

How long do you want to spread out its value?
Select the length of time that this asset will provide value, so we can expense a suitable portion each month. For example, choose 12 months for an annual contract. If you don't want to expense it at all (as with, say, a security deposit), choose "Keep at full value" instead.

9 months

Back Save & Close

Spending Budget Summary

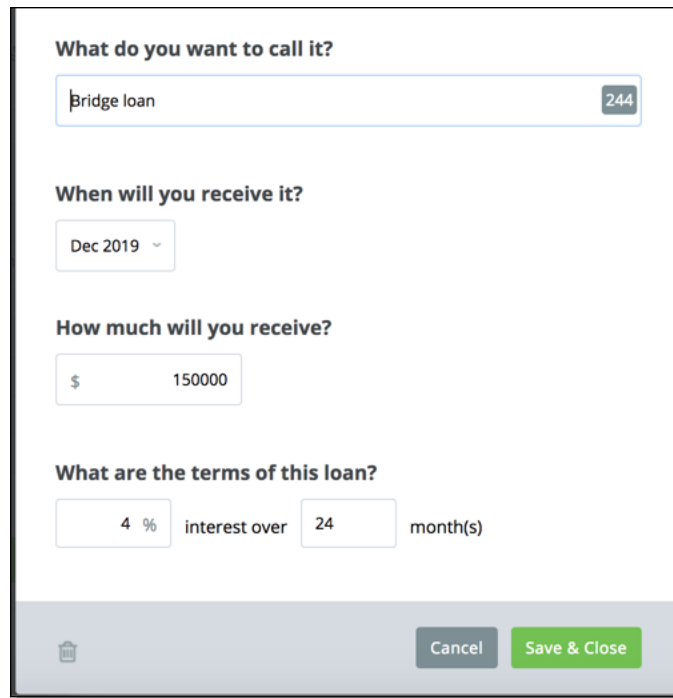
The LivePlan financial projections include the impact of spending on expenses, assets, interest, and taxes, all according to standard generally accepted accounting principles (GAAP). Expenses show up in Profit & Loss, as they should; spending on assets, and to repay debts, show up on the Balance Sheet and

in the Cash Flow, as they should. So don't worry—LivePlan keeps track of those for you where you need it, in Projected Cash Flow, Projected Balance Sheet, and Projected Profit and Loss.

Interest and Debt Repayment

As I noted in the introduction to this chapter, LivePlan collects information on debts, including interest rates and repayment schedules, so it can include debt implications in its management of cash flow. Illustration 8-9 shows how you fill in the information here. LivePlan will automatically calculate principal repayments and interest expenses.

Illustration 8-9: Estimating Loans in LivePlan



The screenshot shows a web form for estimating a loan. It has four main sections with labels in bold. The first section, 'What do you want to call it?', has a text input field containing 'Bridge loan' and a small grey button with the number '244'. The second section, 'When will you receive it?', has a dropdown menu showing 'Dec 2019'. The third section, 'How much will you receive?', has a text input field with a dollar sign and the number '150000'. The fourth section, 'What are the terms of this loan?', has three input fields: '4 %', 'interest over', and '24', followed by the text 'month(s)'. At the bottom right are two buttons: 'Cancel' (grey) and 'Save & Close' (green). A small trash can icon is at the bottom left.

Field	Value
What do you want to call it?	Bridge loan
When will you receive it?	Dec 2019
How much will you receive?	\$ 150000
What are the terms of this loan?	4 % interest over 24 month(s)

As you can see in the above illustration, LivePlan guides you through inputs of existing loans, if you have them (with starting balances, as shown in our next subsection); or estimating the timing of new loans.

LivePlan does calculations in the background to estimate the details of principal repayment and interest that affect cash flow and the rest of the financial projections.

Setting Starting Balances

For existing companies, LivePlan uses simple settings of starting balances to make calculations and estimate payments and expenses and financial flows. The simple input is shown in Illustration 8-10:

Illustration 8-10: Entering Starting Balances for Assets

Enter your starting balances

Total Assets

\$121,500

=

Total Liabilities

\$99,650

+

Total Equity

\$21,850

About starting balances

To create a realistic forecast for your existing business, we need to know where your finances stand as of the start of your forecast. Please enter the amount for each balance sheet account below. If you need help, [learn more here](#) or [contact us](#).

Cash

How much cash do you have in the bank? Remember, all of these balances should be as of the start of your forecast in January 2015.

\$

35000

Accounts receivable

How much do your customers owe you for past sales on credit?

\$

Days to get paid

How long will you take to collect on this starting balance — that is, to get paid for the past sales on credit that it represents?

30

days

Inventory

What is the value of your unsold inventory? If you don't use inventory, just leave this at zero.

\$

17000

Chapter 9: Plan for Cash Flow

*“I have pledged... to always run Berkshire with more than ample cash...
I will not trade even a night’s sleep for the chance of extra profits.”*

~ Warren Buffet

True cash-only businesses are extremely rare. Such a business would have to sell entirely in cash, check, or credit card; not ever have to buy inventory or anything else before it makes a sale; and would immediately pay for everything it buys. Maybe that’s a crafts-market artisan? A writer? I’m not sure. When in doubt, plan for the worst. I am sure that most of us, as business owners, have to deal with the more common problems of cash flow.

LivePlan does mathematically and financially correct calculations in the background, so that your essential business projections are as accurate as your assumptions. That takes some additional assumptions for cash flow, which you do with LivePlan guided input, as shown below in this section. First, however, I want to cover some essential principles.

Beware of Cash Traps

Profits aren’t cash.

Profits aren’t cash; they’re accounting. And accounting is a lot more creative than you think. You can’t pay bills with profits. Actually, profits can lull you to sleep. If you pay your bills and your customers don’t, it’s suddenly business hell. You can make profits without making any money. Profits are an accounting concept; cash is what we spend. We pay the bills and payroll with cash. While a lean business plan doesn’t necessarily include a full-blown financial forecast (at least not until the business plan event, when it will be needed), of course it should include planning for cash.

Cash means liquidity, like checking balance; not coins and bills.

This should be a pretty simple concept, but it becomes difficult because we're trained to think about profits more than cash. It's the general way of the world. When people do the mythical business plan on a napkin, they think about what it costs to build something, and how much more they can sell it for, which means profits.

However, you can be profitable without having any money in the bank. And what's worse is that it tends to happen a lot when you're growing, which turns good news into bad news and catches people unprepared.

Cash Flow Isn't Intuitive.

Don't try to do it in your head unless you have that extremely simple business. Making the sale doesn't necessarily mean you have the money for it. Incurring the expense doesn't necessarily mean you paid for it already. Inventory is usually bought and paid for and then stored until it becomes cost of sales. Being profitable doesn't guarantee you have money in the bank. Most of us have to take the extra step to plan cash, not just profits.

Growth Sucks Up Cash.

It's paradoxical. The best of times can be hiding the worst of times. One of the toughest years my company had was when we doubled sales and almost went broke. We were building things two months in advance and getting the money from sales six months later. Add growth to that and it can be like a Trojan horse, hiding a problem inside a solution. Yes, of course you want to grow, but be careful because growth costs cash. It's a matter of working capital. The faster you grow, the more cash you need.

Every Dollar of Receivables is A Dollar Less Cash.

Although it's not intuitive, it's true that more receivables mean less cash. You can do the analysis pretty quickly. Assets have to equal capital minus liabilities, so if you have a dollar of receivables as an asset, that pretty much means you have one dollar less in cash. If your customers had paid you, it would be money, not accounts receivable.

Receivables? When you make a sale, but the client or the customer didn't pay you immediately, you record the amount they owe you as Accounts Receivable.

This comes up all the time in business-to-business sales. In most of the world, when a business delivers goods or services to another business, instead of getting the money for the sale right away, there is an invoice and the business customer pays later. That's not always true, but it is the rule, not the exception. We call that "sales on credit," by the way, and it has nothing to do with sales paid for by credit card (which, ironically, is usually the same as cash less a couple of days and a couple of percentage points as fees). Some people call it "sales on account."

We can use this in making financial projections: the more assets you have in receivables, the less in cash.

Example: A company running smoothly with an average of a 45-day wait for its receivables has a steady cash flow with a minimum balance of just a little less than \$500,000. The same company is more than half a million dollars in deficit when the number of its average collection days goes to 90 instead of 45. That's a swing of more than a million dollars between the two assumptions. And that's in a company with less than \$10 million annual sales, and fewer than 50 employees. The company in the sample case that follows this section, with sales of about \$30,000 a month, has a gap between operating profits and cash flow of more than \$90,000.

The trick is that profit and loss doesn't care about receivables. You have as much profit when you sell \$1,000 that your customers haven't paid yet as when you sell \$1,000 that your customers paid instantly in cash. Obviously, the cash flow implications are different in either case.

Every Dollar Spent on Inventory is a Dollar Less Cash.

When your business has to buy stuff before it can sell it, that's called inventory. It's one of your assets. And keeping a lot of inventory can do bad things to your cash flow, unless you don't pay for it.

This can be pretty simple math. If having nothing in inventory leaves you with \$20,000 in cash, then having \$19,000 in inventory leaves you with only \$1,000 in cash. That is, if you've paid for the inventory. That's because your other assets, your liabilities, and your capital are all the same.

Sometimes, of course, you cannot pay for that inventory, which means you have more payables, and your cash balance is supported by those payables. That's my next point...

Every Dollar of Payables is a Dollar More of Cash.

While receivables and inventory suck up money by dedicating assets to things that might have been cash but aren't, not paying your own bills until they are due, and even paying them slightly late, is a standard way to protect your cash flow. The same basic math applies, so if you leave your money in cash instead of using it to pay your bills, you have more cash.

It's called "accounts payable," meaning money that you owe. Every dollar in accounts payable is a dollar you have in cash that won't be there if you pay that bill. The same problem you have when you sell to businesses is an advantage you have when you are a business. The seller's accounts receivable is the buyer's accounts payable.

Now I don't want to imply that you don't pay your bills, or that it doesn't matter. Your business will have credit problems and a bad reputation if it doesn't pay bills on time, or if it is chronically late with payments. Still, a lot of businesses use accounts payable to help finance themselves.

Working Capital is a Survival Skill.

Technically, *working capital* is an accounting term for what's left over when you subtract current liabilities from current assets. Practically, it's money in the bank that you use to pay your running costs and expenses and buy inventory while waiting to get paid by your business customers.

Bankers Hate Surprises.

Plan ahead. You get no extra points for spontaneity when dealing with banks. If you see a growth spurt coming, a new product opportunity or a problem with customers paying, the sooner you get to the bank armed with charts and a realistic plan, the better off you'll be.

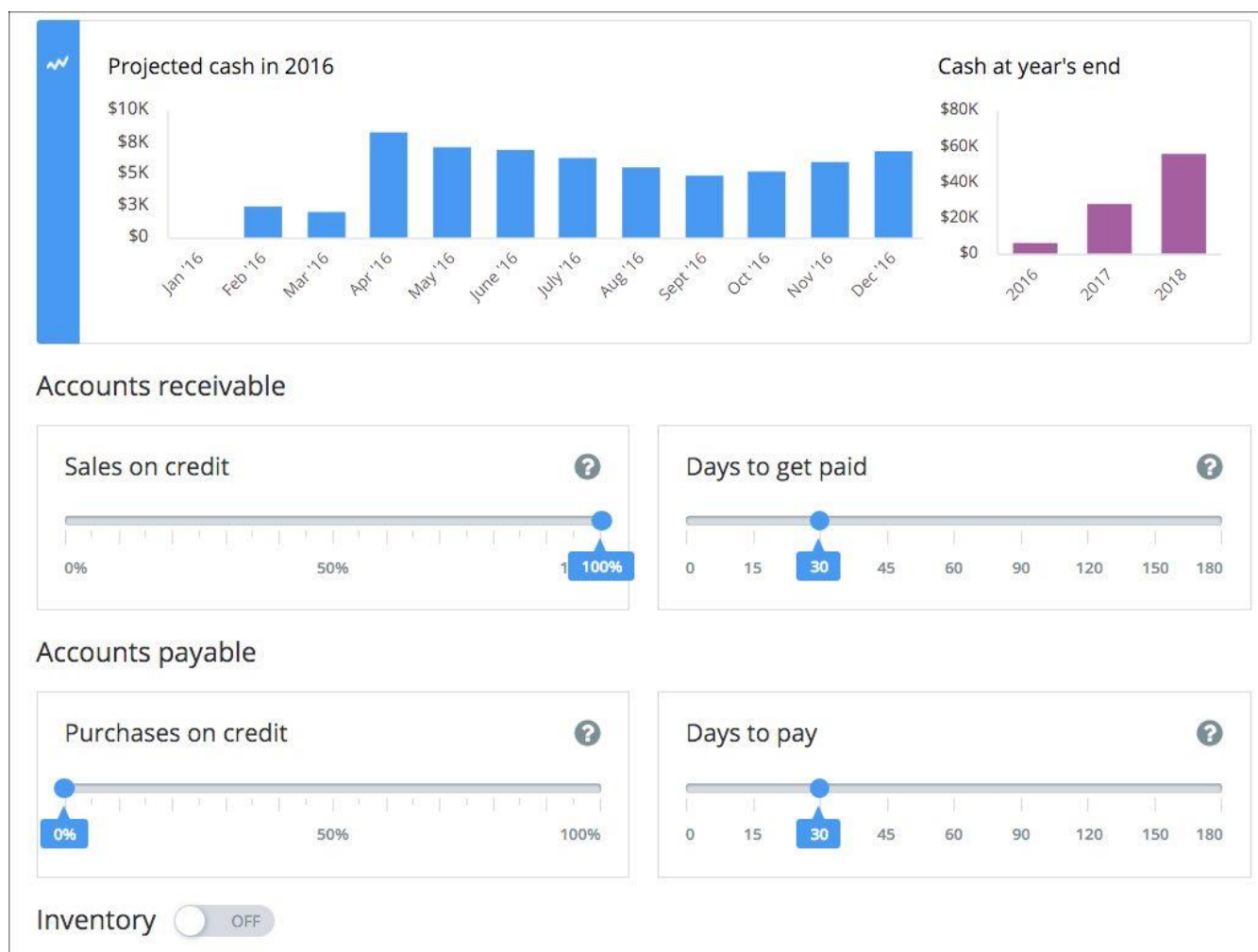
Watch These Three Vital Metrics.

Collection days measure how long you wait to get paid. *Inventory turnover* is a measure of how long your inventory sits on your working capital and clogs your cash flow. *Payment days* measure how long you wait to pay your vendors. Always monitor these three vital signs of cash flow. Estimate them 12 months ahead and compare your plan with what actually happens.

LivePlan Cash Flow Assumptions

LivePlan estimates your cash flow based on your guided inputs to the three vital cash flow metrics critical assumptions in the paragraph above. In Illustration 9-1, LivePlan guides you through the assumptions for sales on credit and collection days.

Illustration 9-1: LivePlan Cash Flow Assumptions



Remember, please, that these are simple assumptions. Don't sweat the details. You may be tempted to try to divide your receivables flow into categories of customers, or make allowances for special customers, but on the long term that doesn't work well. This is planning, not accounting. Don't expect your estimates to be exactly right for every month, and remember the goal is to set assumptions you can track during your monthly review and revision session.

If you have no idea about cash flow, go back to fundamentals. Sales on credit is the rule with business-to-business sales, so if you sell to businesses, play it safe and put 100% sales on credit. If you sell to a mix of businesses and consumers, or you sell to some consumers on credit, then think it through. One easy way to estimate, if you have some past history, is to divide your average balance of Accounts Receivable for the last year by your average total monthly sales for the year, and use that percentage as a guide.

For collection days, you can calculate your average from past results by using a simple formula shown in Illustration 9-2 (thanks to investopedia.com):

Illustration 9-2: Calculating Collection Period

DEFINITION OF 'AVERAGE COLLECTION PERIOD'

The approximate amount of time that it takes for a business to receive payments owed, in terms of receivables, from its customers and clients.

Calculated as:

$$\text{Average Collection Period} = \frac{\text{Days} \times \text{AR}}{\text{Credit Sales}}$$

Where:

Days = Total amount of days in period

AR = Average amount of accounts receivables

Credit Sales = Total amount of net credit sales during period

If you're not sure, or you have no past results to go on, estimate 60 days unless you are in a particularly slow paying area of industry (you should know), in which case you should estimate 90 days.

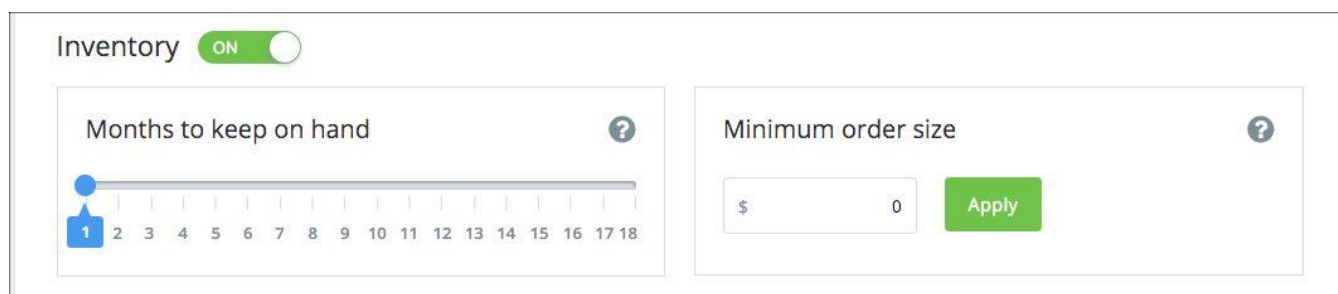
Outgoing Payments Assumptions

LivePlan guides you through similar assumptions for your spending. Most companies pay some obligations immediately—the most obvious example is payroll—and wait on most obligations to pay a few weeks later. With LivePlan you set simplifying assumptions so LivePlan can estimate your cash flow. You can see how it does that in Illustration 9-1:

Inventory Assumptions

LivePlan also needs to know about inventory to estimate cash flow. In Illustration 9-1 you see that there is a simple checkbox for businesses that don't manage inventory, and simple inventory for months on hand and minimum purchase. That's all it takes for LivePlan to pull inventory into the cash flow estimates.

Illustration 9-3: LivePlan Inventory Assumptions

The screenshot shows the 'Inventory' settings in LivePlan. At the top, there is a toggle switch labeled 'Inventory' which is currently turned 'ON'. Below this, there are two main sections. The first section is titled 'Months to keep on hand' and features a horizontal slider with a blue dot at the '1' mark. The slider has tick marks for numbers from 1 to 18. The second section is titled 'Minimum order size' and contains a text input field with a dollar sign (\$) and the number '0', followed by a green 'Apply' button. Both sections have a small question mark icon in the top right corner.

LivePlan Cash Flow

LivePlan automatically takes your assumptions for sales, spending, and the three critical cash flow assumptions for sales on credit, payments, and inventory; and gives you month-by-month estimated cash flow. The result is in Illustration 9-4:

Illustration 9-4: LivePlan Cash Flow Projections

<div> Pitch Plan Forecast Benchmarks Schedule Scoreboard Manage Users </div>						
Projected Cash Flow ▾						
	Jan '15	Feb '15	Mar '15	Apr '15	May '15	Jun '15
Operations						
Net Profit	(\$1,704)	(\$1,381)	(\$2,662)	(\$1,618)	\$1,827	(\$433)
Depreciation and Amortization	\$1,249	\$1,249	\$1,249	\$1,249	\$1,250	\$1,250
Change in Accounts Receivable	(\$2,630)	(\$2,941)	(\$465)	(\$555)	(\$1,234)	(\$308)
Change in Inventory	\$225	(\$950)	(\$2,095)	(\$4,885)	\$2,985	(\$4,780)
Change in Accounts Payable	\$16,910	\$10,757	\$4,640	\$6,433	(\$543)	\$3,288
Change in Sales Taxes Payable	\$0	\$0	\$0	\$0	\$0	\$0
Net Cash Flow from Operations	\$14,050	\$6,734	\$667	\$624	\$4,285	(\$983)
Investing & Financing						
Assets Purchased or Sold	(\$25,000)	\$0	\$0	\$0	\$0	\$0
Investments Received	\$0	\$0	\$0	\$0	\$0	\$0
Change in Short-Term Debt	(\$163)	(\$163)	(\$164)	(\$165)	(\$165)	(\$166)
Change in Long-Term Debt	(\$1,069)	(\$1,072)	(\$1,075)	(\$1,078)	(\$1,081)	(\$1,085)
Net Cash Flow from Investing & ...	(\$26,232)	(\$1,235)	(\$1,239)	(\$1,243)	(\$1,246)	(\$1,251)
Cash at Beginning of Period	\$14,150	\$1,968	\$7,467	\$6,895	\$6,276	\$9,315
Net Change in Cash	(\$12,182)	\$5,499	(\$572)	(\$619)	\$3,039	(\$2,234)
Cash at End of Period	\$1,968	\$7,467	\$6,895	\$6,276	\$9,315	\$7,081

Obviously, cash is vital to business, and cash flow is vital, so this is a critical part of every lean business plan.

Cash Flow Takes Constant Attention

Don't think the cash flow comes out fine the first time you do your LivePlan projections. More often than not, and especially with startups, after the first round of assumptions, the estimated cash balance is negative.

That's really important information. It tells you that you need to plan for working capital. If your projected cash balance is negative, then you're not done with your projections. Welcome to the real

world. You can't have a negative cash balance. The spreadsheets don't care, but the bank will, and your payees will, because your checks will be bouncing. So you have some classic options to deal with:

1. Go back to your projections and figure out how to sell more or spend less; or
2. invest more money as capital: yours, or some other investor's; or
3. borrow money to make up the difference.

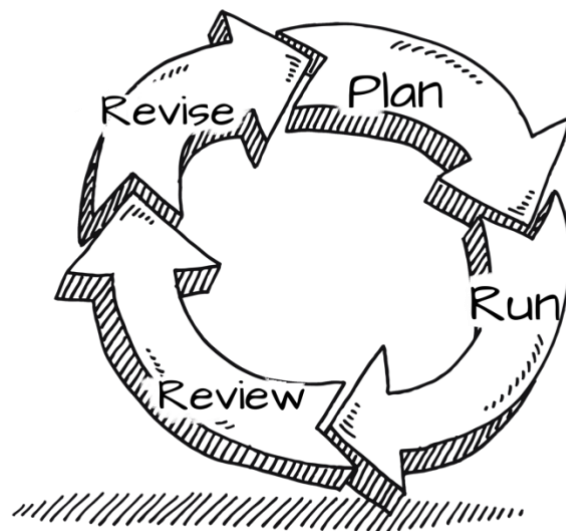
With LivePlan, as you decide how to handle your cash flow problems, you go back into your assumptions and revise them. Use the Loans and Investment feature to add money from either source. Use the sales forecast and spending budget to estimate how you will increase sales or cut spending.

Remember, though, that there is no use for unrealistic assumptions. Make it happen in the real world, not just in the plan. Lean business planning is about running your business better, not just managing projections to look good.

Section 3: Keeping it Live: Continuous Process

Lean business planning is a continuous process. The first lean business plan is just the first step. For the rest of your business' life, you review the plan once a month. Compare actual results to what you had planned, determine what steps to take to optimize, and revise the plan.

This is where you put into action one of the most fundamental principles of lean business planning, the idea of continuous process, the PRRR cycle, that puts the lean into lean business planning. It's a main theme of this book.



Chapter 10: The Monthly Review

“It is a bad plan that admits of no modification.”

~ Publilius Syrus

Scheduling the monthly review was the first of the concrete specifics of your plan. I suggested a set schedule such as the third Thursday of every month, so you can set the meeting into your calendar ahead of time. Make sure you get that meeting onto the schedules of every person on the team who should attend. Make sure it's a relatively short, but also extremely useful meeting.

Expect resistance when you introduce good planning process into an existing organization. I have several decades of first-hand experience with this. It takes leadership. Some people mistrust planning process because they fear you will use accountability—tracking performance metrics and results—against them. Others mistrust it because of the myth that having a plan means you have to follow it, no matter what.

They Call It Variance Analysis

First, though, here's some simple vocabulary: In accounting and financial analysis, the difference between plan and actual is called *variance*. It's a good word to know. Furthermore, you can have positive (good) or negative (bad) variance.

Positive Variance:

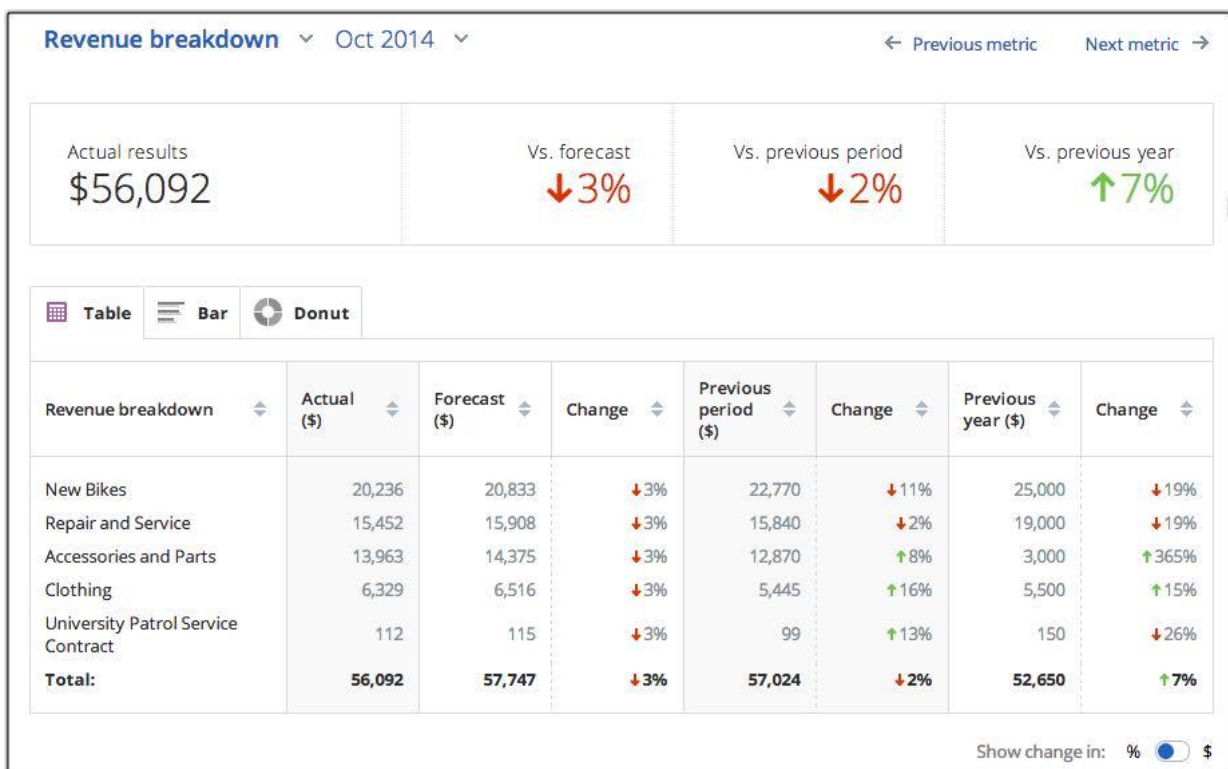
- It comes out as a positive number.
- If you sell more than planned, that's good. If profits are higher than planned, that's good too. So for sales and profits, variance is actual results less planned results (subtract plan from actual).
- For costs and expenses, spending less than planned is good, so positive variance means the actual amount is less than the planned amount. To calculate, subtract actual costs (or expenses) from planned costs.

Negative Variance:

- The opposite. When sales or profits are less than planned, that's bad. You calculate variance on sales and profits by subtracting plan from actual.
- When costs or expenses are more than planned, that's also bad. Once again, you subtract actual results from the planned results.

The LivePlan Dashboard gives you visual variance analysis when you connect to your accounting. That means you can see plan-vs.-actual results in the charts in the Dashboard. For example, Illustration 10-1 shows plan-vs.-actual for sales:

Illustration 10-1: LivePlan Dashboard Plan-vs.-Actual for Sales



This is where the management begins. These are not just numbers. These are performance indicators. The bike storeowner and the team get together and review the changes. They go beyond the numbers, into the causes of the changes, looking for identifying management items that should be changed.

In the data shown here, for example, sales of accessories and parts are way up from the previous year. Does this tip management off to marketing activities that worked? To a change in competition, or market

conditions? And sales of clothing are up month-to-month and year-to-year, but down compared to the forecast. Was this just an error in the forecast? Was there a promotion in play with this?

Please don't settle for narrowing the plan-vs.-actual analysis to focus only on the accounting data that LivePlan shows you in the Dashboard. Make sure you check the other performance metrics as suggested in Chapter 6. The lean planning principle of accountability suggests that the planning process includes suggested metrics for as many factors in the business as possible. And for each of them, the plan review process is the right format for identifying good and bad performance and dealing with that in management.

For example, consider practical milestone items like social media updates or website conversions. Plan- s.-actual is a natural lead-in to managing people based on numbers. It doesn't happen automatically. It takes management attention to track those numbers like LivePlan tracks the accounting.

For example, assume the conversion rate is up. That's kudos for the web team, but is it the result of their improving the landing pages, or simply a lowered price? And if leads from trade shows are down, is that a problem with the person managing trade shows, or the free gift offered, or maybe that an important trade show was cancelled?

Review and Revise

What's important is not the accounting or the calculations, but rather the management that results. Garrett, the bike storeowner, watches the variance every month. He looks for indications of problems, or unexpected positives, so he can react. In the example showing in Illustration 10-1, just as a sample, the variance is negligible. The forecast was remarkably close to actual results. Still, Garrett should investigate why he's selling fewer accessories and parts than planned, and whether the up and down of repair and service is worth reviewing.

The point is the management. Lean business planning is about the management, not the hard numbers. What should be done, given the variance, to make the company better?

Gathering the Team

Make sure your review sessions include the right people.

Even if it's just you, a one-person company, you should still do your monthly review sessions. Plan ahead and take the time to actually step away from the daily routine and review your plan, assumptions, and results. And revise your plan as needed.

In a business, the review session should include everybody in the company who has responsibility for executing the plan. Use your judgment. In a startup with just a few people, review sessions might include the whole team. By the time you have 20 people, review sessions probably include five or six. Being at the review session should be both an obligation and a privilege. Don't include so many people that your meeting is unmanageable. Match your organization structure and your culture.

Take the review session schedule very seriously. You're the leader. You set priorities. You give it importance. You can use the review schedule to set meetings months in advance, so team members can plan around it and be present. And make sure you're present too. If you don't show up, or if you allow others to miss it, then it's not that important.

The need for leadership is especially important in the beginning. After you have years of history with monthly review sessions, then maybe you can miss an occasional session and trust your team to do it well. But the early meetings are essential.

Use the LivePlan Output

I hope you'll forgive me, as author, to add a personal note at this point, a reflection on the LivePlan Dashboard and where it came from. I've been writing about the benefits of plan-vs.-actual analysis for 20 years. I built the plan-vs.-actual analysis into *Business Plan Pro*, my first Windows application for business planning, originally released in 1995. But until LivePlan, doing the plan-vs.-actual analysis to make planning process real was always a matter of data input. Now, with LivePlan, finally, I can recommend and use an application that connects to the accounting and does automatic plan-vs.-actual analysis.

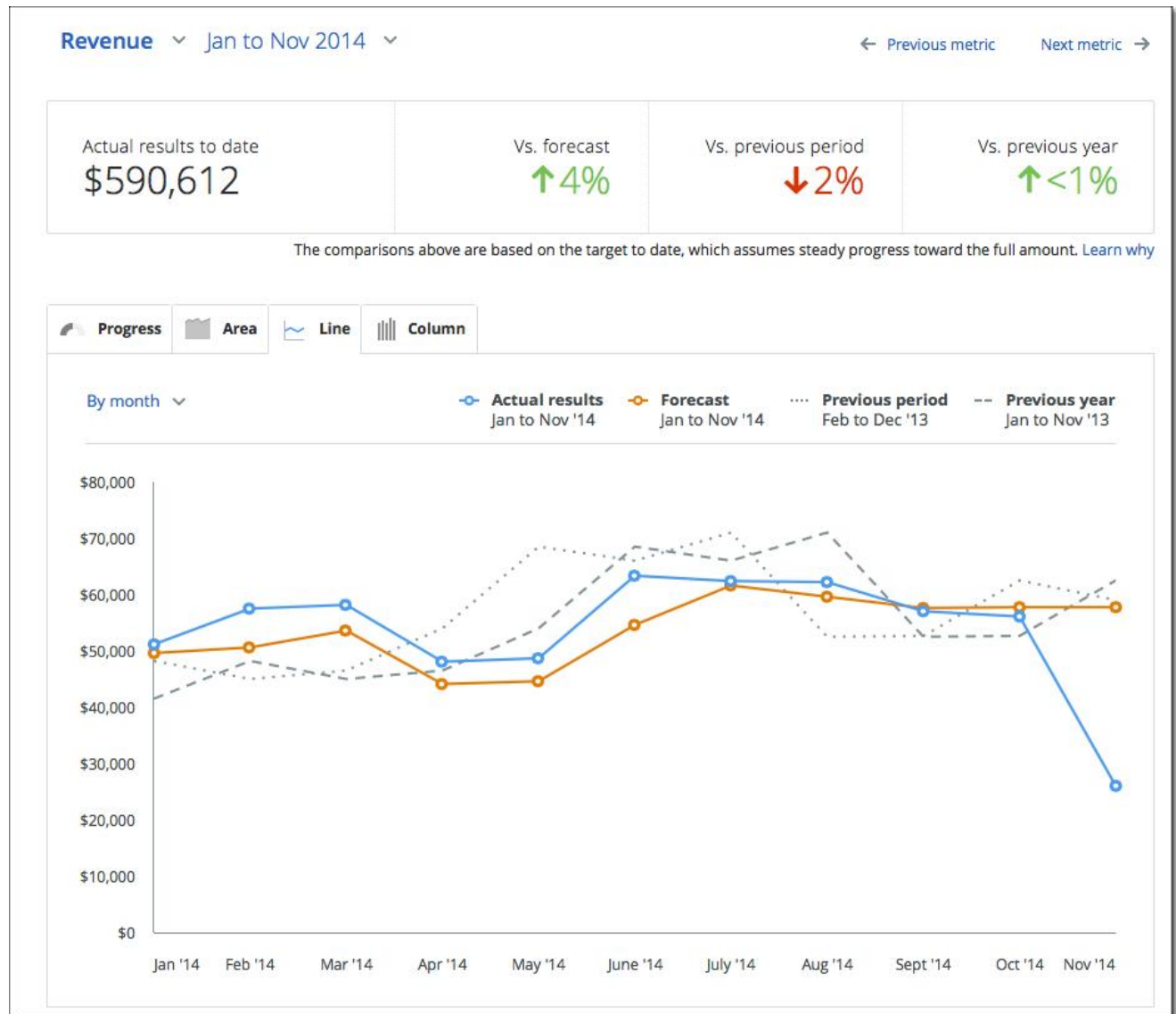
If that seems like me selling—because I own the company that publishes LivePlan—I apologize. If it helps at all, this note is not in the generic version of this book, only in this LivePlan-specific version. It's a huge relief for me to be able to recommend software that does this automatically; it's a real leap forward for lean planning and business planning.

LivePlan isn't magic. It works with several specific accounting packages. Happily, one of them is QuickBooks, which is used by way more small businesses than any other. And there are other packages as well. The team is working to broaden the possibilities, so I won't list them here.

Connecting isn't automatic because accounting isn't standardized. Each company has its own unique chart of accounts. So, it takes a session to go through the chart of accounts and reconcile what the accounting has with what the business plan has. In practical use, that's often a matter of telling LivePlan how to summarize items that are kept separate and in more detail in the accounting. For example, the real-life bicycle store has multiple lines of new bicycles, but in the LivePlan connection, the storeowner sets it to sum all bicycle sales into a single line.

For example, the line chart in Illustration 10-2 below connects the planning with the accounting and shows several important lines to look at: Sales by month compared to the plan and to actual results of the previous year. LivePlan does this automatically—once the accounting is connected—without any data entry or massaging.

Illustration 10-2: Dashboard with Sales by Month



LivePlan includes dozens of possible views, business charts, and diagrams to show sales, sales breakdown, direct costs, expenses, profits, gross margin, cash flow, and key cash factors, among other items, all with just click and choose.

In Illustration 10-3, LivePlan breaks down the sales into the different lines of sales, comparing each to the forecast and actual results and previous year's results:

Illustration 10-3: Dashboard Analysis Monthly Sales

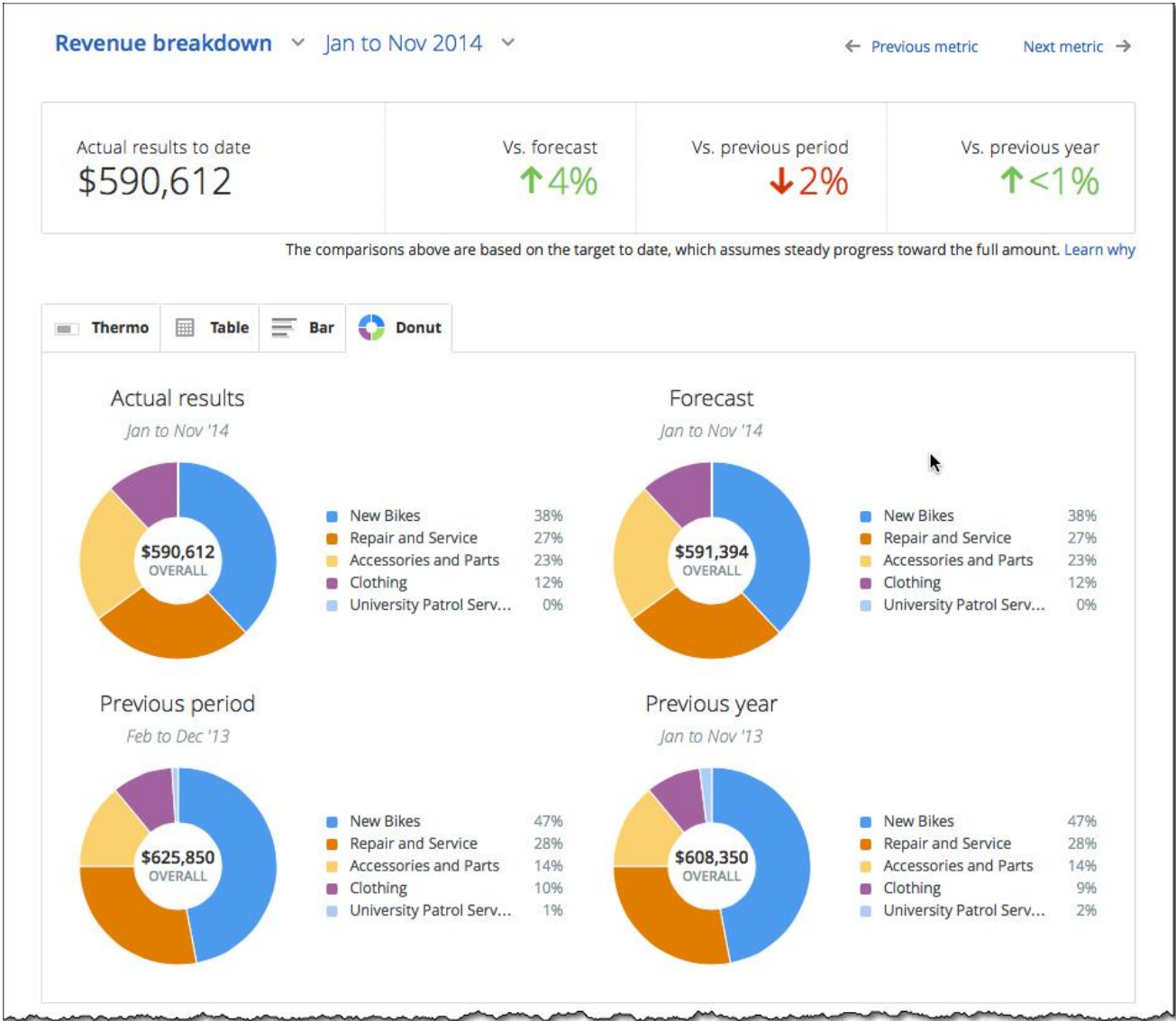
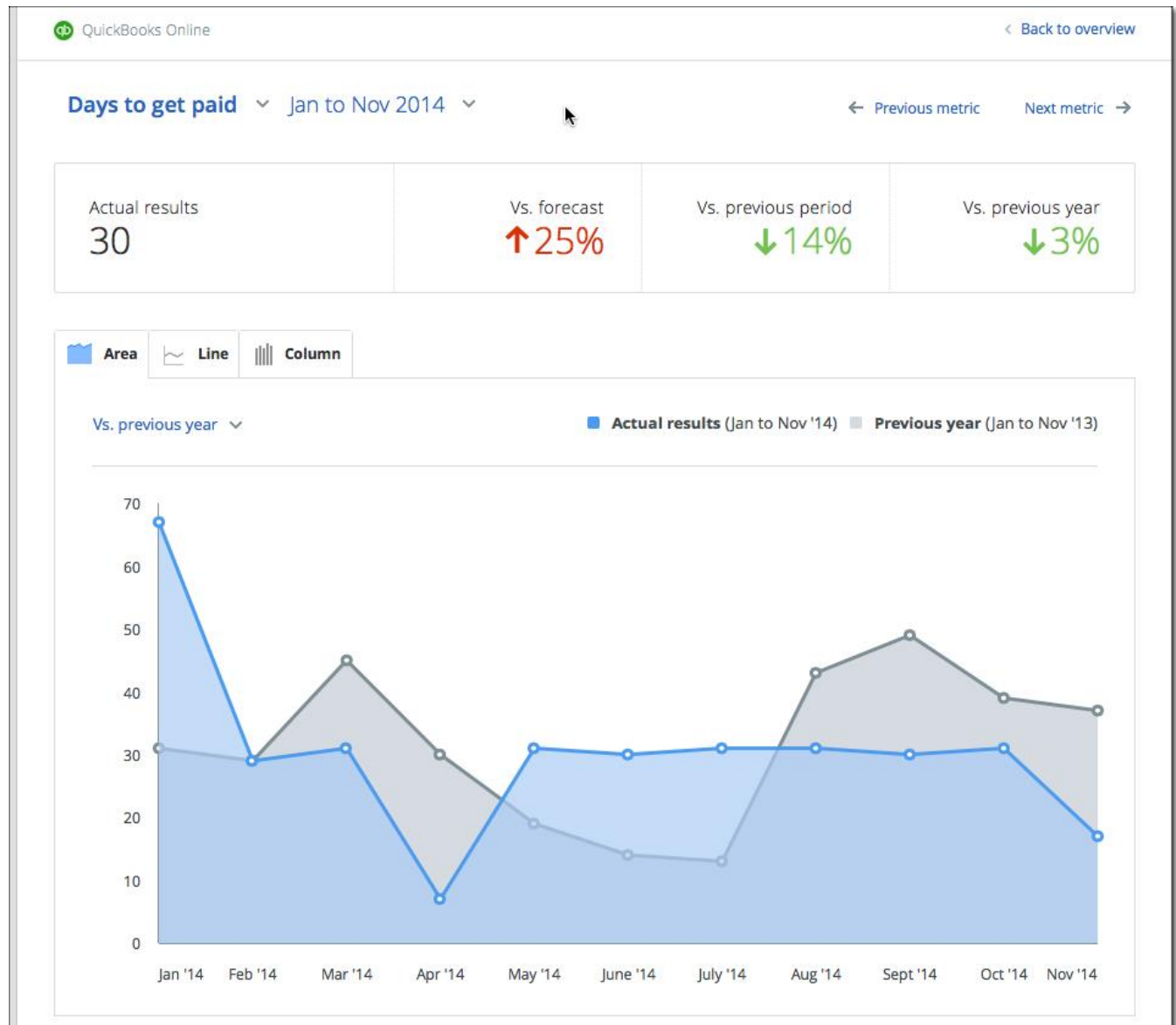


Illustration 10-4 looks specifically at the performance compared to the plan and to past results in the critical function of getting paid. Average collection days is shown over time. You can image how valuable this view is when it's time for the monthly review session.

Illustration 10-4: Dashboard Analysis of Getting Paid



And finally, one last example: this is the LivePlan overview, showing the revenue and expenses for a given month compared to the forecast for that month. That is in Illustration 10-5. This is the last I'll show here, but there are many other views possible. I hope you can see how all of them can lead to effective plan review and revision.

Illustration 10-5: Dashboard Overview for a Month



Standard Review Meeting Agenda

Review sessions become second nature in time, but as you start with your planning process, the more detail in the agenda, the better. Here are some things to include.

Review Assumptions

Start every review session with your list of assumptions. That's why you list them in the plan. Assumptions change often. You don't build a plan on a set of assumptions and then forget about them, because they are probably changing. So once a month you review assumptions.

Assumptions lead to a key decision. You always deal with the question of when to revise the plan and when to stick to it. If assumptions have changed, then the plan should change. If not, then you look further. Maybe you need to stay the course and maybe not.

Review Milestones

You can set some of the main agenda points of the review sessions in advance. Your plan includes milestones, that is, dates and deadlines. Use them to set review session agendas. For example, if your plan includes a milestone for product launch in September, then even in January (several months ahead), you can add that item to the August, September, and October review sessions. In August you check the last details, in September you go over the launch as it's happening, and in October you review the results and execution.

Review Performance Against Planned Metrics

Reap the benefits of good planning and accountability. Use the review session to share performance metrics, track results, and identify problems, opportunities, and threats. Let there be some peer pressure as key managers share their results.

The most obvious and standard review is the plan-vs.-actual analysis of financial results. In accounting and finance, the difference between the plan and actual results is called *variance*, and exploring it is called *variance analysis*. This is a very important monthly process. Look at key financial metrics including sales, sales by product or line, direct costs, expenses, profits, balance sheet including assets and liabilities, and, of course, the cash balance and cash flow.

Remember that performance metrics, accountability, and peer pressure require leadership. You want this to be about good decisions, productivity, and collaboration, not threats or fear. Make sure your managers feel safe bringing up expectations and revising metrics. Encourage them to evaluate metrics often and to bring up problems with metrics ahead of time, not after the fact.

Good planning encourages collaboration. Managers should know that it's better to bring up problems ahead of time than hide them until after the fact. If the various factors that influence total sales show problems over the summer, you want to know about it, and deal with it promptly. You don't want to wait until results are bad in October, and then react in November. Instead, in good planning process, managers bring up problems before they happen. Problems are discussed, solutions put in place where possible, and

expectations revised. You want to know ahead of time if sales are going to slip, so you can adjust expenses accordingly. That happens in an atmosphere of collaboration, not criticism.

That collaboration should extend to other metrics, beyond just the financials. For example, suppose a plan includes leads generated through an online webinar program. It's set to generate 500 new leads in October. However, the marketing team learns in July that some unforeseen development—not something the team could control—will really hurt the attendance of the October webinar, and decrease the expected leads. With good planning process, the problem comes up in the July or August plan review session. The team adjusts both performance metrics and related marketing activities ahead of time. What you don't want, of course, is the problem being hidden or avoided with no actions taken, and then performance metrics are disappointing for October.

Leadership sets the tone. Problems are supposed to come up. Good management wants to get bad news fast. And collaboration is the rule.

Chapter 11: Planning as Management

“It is better to take many small steps in the right direction than to make a great leap forward only to stumble backward.”

~ Chinese proverb

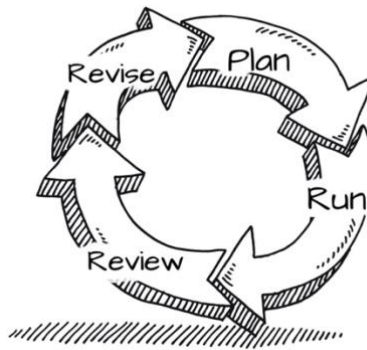
Repeat the plan review step monthly for the rest of your business life. A going business is always revising its plan. Change is constant. Follow your review schedule monthly. A real business plan is never done. If your plan is done, your business is done.

Now you have a workable business plan, the first step in a planning a process that will help you steer your business and optimize your management. Follow up with the review schedule, review plan-vs.-actual results every month, and keep your plan alive and growing. Keep it lean, keep it live.

You’ve seen in the previous chapter how you can get automatic plan-vs.-actual views of your essential business numbers—sales, costs, expenses, and cash flow—by connecting your accounting to the LivePlan Dashboard. That’s a huge advantage for good business planning. It makes the numbers automatic.

That alone, however, doesn’t give you the full advantage of the lean business planning cycle. Aside from the business numbers, your lean plan concrete specifics include other performance metrics such as leads generated, web traffic, emails sent, proposals, calls made, and so forth.

Experts know that [planning is to manage change](#) and is not voided by change. As your business evolves, so will your business plan. You’ll add pieces to fit the needs. You’ll need to add product and marketing information to coordinate development, deployment, messaging, and timing. You’ll have to add to your financials to account for loans and capital equipment, which become part of a balance sheet.



However, your plan doesn't become a document until you need it to be. Until you need to beef it up for outsiders, your plan is just simple lists and tables. Your plan is a plan, but it isn't necessarily printed on paper.

And eventually you may have what we call a [business plan event](#). You need outside financing or a commercial loan. Or your bank requires a business plan to give you a merchant account so you can take credit cards. Or you want to take on partners, or communicate better with key vendors.

These are the business plan events that require a document that's more than just the lean plan, or a summary memo, or a slide deck, or all of those.

I'm calling this the PRRR cycle, for "plan, run, review, and revise." This is my lean-planning version of the traditional lean business technique that started with lean manufacturing and also includes the lean startup.

Stick to the plan or change it?

As you work with your lean planning, when you get to reviewing and revising, these questions will come up:

Do I stick to the plan, or change it? If I change it, then is my plan-vs.-actual valid? Doesn't it take consistent execution to make strategy work?

These are valid questions. And there are no easy answers. You won't find some set of best practices to make this easy for you. You'll end up deciding on a case-by-case basis.

The Arguments for Staying the Course

In one of my earlier books on business planning, I wrote this about consistency and planning:

It's better to have a mediocre strategy consistently applied over three or more years than a series of brilliant strategies, each applied for six months or so.

This is frustrating, because people get bored with consistency, and almost always the people running a strategy are bored with it long before the market understands it.

Consider this true story. I was consulting with Apple Computer during the 1980s when the Macintosh platform became the foundation for what we now call "desktop publishing." We take it for granted today, but back in 1985 when the first laser printers came out, it was like magic. Suddenly a single person in a home office could produce documents that looked professional.

What I saw in Apple at that time was smart young managers getting bored with desktop publishing long before the market even understood what it was. They started looking at multimedia instead. They were attracted to new technologies and innovation. As a result, they lost the concentration on desktop publishing, and lost a lot of market potential as Windows vendors moved in with competitive products.

That argues for staying the course. Strategy takes time.

The Arguments for Revising the Plan

On the other hand, there is no virtue in sticking to the plan for its own sake. Nobody wants the futility of trying to implement a flawed plan.

You've probably dealt with the problem of people doing something "because that's the plan" when in fact it just isn't working. I certainly have. That kind of thinking has something to do with why some web companies survived the first dotcom boom and others didn't. It also explains why some business experts question the value of the business plan. That's sloppy thinking, in my opinion: confusing the value of the planning with the mistake of implementing a plan without change or review, just because it's the plan.

How to Decide: Stay the Course or Revise the Plan

This consistency-vs.-revision dilemma is one of the best and most obvious reasons for having people—owners and managers—run the business planning, rather than algorithms or artificial intelligence. It takes people to deal with this critical judgment.

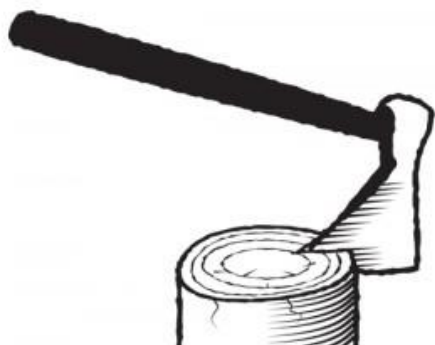
One good way to deal with it is by focusing on the assumptions. Identify the key assumptions and whether or not they've changed. When assumptions have changed, there is no virtue whatsoever in sticking to the plan you built on top of them. Use your common sense. Were you wrong about the whole thing, or just about timing? Has something else happened, like market problems or disruptive technology, or competition, to change your basic assumptions?

Do not revise your plan glibly. Remember that some of the best strategies take longer to implement. Remember also that you're living with it every day; it is naturally going to seem old to you, and boring, long before the target audience gets it.

A Good Business Plan is Never Done

This is true for all business planning, not just lean business planning:

A good business plan is never done. If your business plan is finished, then your company is also finished.



It's a lot like the legendary farmer's axe that has had its handle changed four times and its blade changed three times, but it's still the same axe.

As your company gets used to the planning process, the business plan is always a work in progress. It gets a big refresh every year, and a review and course correction every month.

While this is true for all business planning, the lean plan is especially good for dealing with this essential reality, because the lean plan is faster and easier to do and therefore easier to review and revise. It's streamlined, just big enough to run the business.

The idea is that you always have your lean plan up to date. You meet every month to review it. Every so often, as [business plan events](#) come up, you spin out of your business plan a formal output piece, whether it's a pitch presentation, an elevator speech, or a full-fledged formal business plan document.

Do understand, always, that the document, summary, or pitch is not the plan; that's just output from the plan. It's the latest version. But the lean business plan goes on, like steering, walking, dribbling, and navigation.

Don't ever wait for a plan to be done. Get going.

Business Plans Are Always Wrong, But Vital

It is a simple statement: all business plans are wrong, but nonetheless vital.

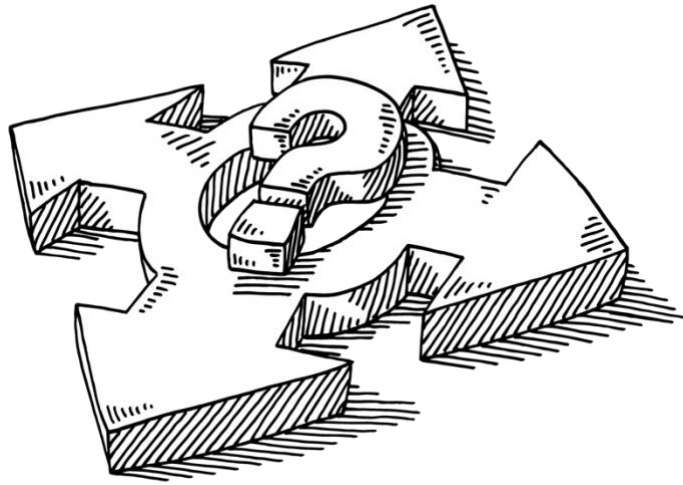
It is paradoxical, perhaps, but still very true.

All business plans are wrong because we're human, we can't help it, we're predicting the future, and we're going to guess wrong.

But they are also vital to running a business because they help us track changes in assumptions and unexpected results in the context of the long-term goals of the company, long-term strategy, accountability, and everything lean planning represents.

Appendices

This section contains more detailed information, tips and traps, suggestions, food for thought, and more discussion. Chapter by chapter, I left the additional information contained here for this last section because people are different: some want all the detail in order, and others want to go quickly through the main points.



Appendix A: Starting Costs

“I knew that if I failed I wouldn’t regret that, but I knew the one thing I might regret is not trying.”

~ Jeff Bezos

Knowing the starting costs before you start a business is a matter of two simple lists:

- **Startup expenses:** These are expenses that happen before the beginning of the plan, before the first month of operations. For example, many new companies incur expenses for legal work, logo design, brochures, site selection and improvements, and signage. If there is a business location, then normally the startup pays rent for a month or more before opening. And if employees start receiving compensation before the opening, then those expenses are also startup expenses.
- **Startup assets:** Typical startup assets are cash (in the form of the money in the bank when the company starts), business or plant equipment, office furniture, vehicles, and starting inventory for stores or manufacturers.

Timing and Startup Costs

Startup costs happen before launch. On the first day of business, the launch, a normal business startup has already incurred its startup expenses and has acquired its startup assets. It figured out financing including borrowing what it needs to borrow, establishing initial investment, and setting up an initial balance that saves the startup expenses as a loss at startup (which will be deductible against profits later on, to reduce taxes).

Startup costs often include rent and payroll that are paid before launch. The difference between these as startup expenses and as running expenses is timing, and nothing else. The same is true of starting inventory; it’s a startup cost because it’s needed before the launch, or at the time of the launch. Otherwise it’s the same as inventory purchased during the regular course of business.

Entering Startup Assumptions with LivePlan

LivePlan's default handling guides you through these assumptions to set your starting balance. Step by step, you can refer to the estimates above and see how LivePlan handles them.

1. LivePlan collects your starting balances for assets in a simple input screen, shown in Illustration A-1:

Illustration A-1: Entering Starting Balances in LivePlan

Enter your starting balances ✕

Total Assets	=	Total Liabilities	+	Total Equity
\$121,500		\$99,650		\$21,850

About starting balances

To create a realistic forecast for your existing business, we need to know where your finances stand as of the start of your forecast. Please enter the amount for each balance sheet account below. If you need help, [learn more here](#) or [contact us](#).

Cash

How much cash do you have in the bank? Remember, all of these balances should be as of the start of your forecast in January 2015.

\$ 35000

Accounts receivable

How much do your customers owe you for past sales on credit?

\$

Days to get paid

How long will you take to collect on this starting balance — that is, to get paid for the past sales on credit that it represents?

30 days

Inventory

What is the value of your unsold inventory? If you don't use inventory, just leave this at zero.

\$ 17000

2. LivePlan collects starting balances for liabilities. You can see these on the quick estimate above, and Illustration A-2 shows how you type them into LivePlan.

Illustration A-2: Starting Balances for Liabilities

Enter your starting balances

Total Assets

\$121,500

=

Total Liabilities

\$99,650

+

Total Equity

\$21,850

Accounts payable

How much do you owe to your suppliers for past purchases on credit?

\$17650

Days to pay

How long will you take to pay off this starting balance — that is, to pay for the past purchases on credit that it represents?

30 days

Corporate taxes payable

How much, if anything, have you accrued toward your next corporate tax payment?

\$

Sales taxes payable

How much of your cash on hand is actually sales tax revenue that you will soon need to pass along to the government?

\$

Short-term debt

Your starting balances for debt are calculated automatically based on the financing you add in the Loans & Investments step. Short-term debt is associated with credit lines, credit cards, and loans that will be paid back within 12 months.

\$16030

Long-term debt

1. Then you add in the new debts. In this case Garrett's starting balance includes \$17,650 in accounts payable, and \$16,030 in short-term debt. Illustration A-3 shows how LivePlan helps you set the interest rates and terms for loans.

Illustration A-3: LivePlan Inputs for Debts

Tell us about this loan

Tips about loans

Adding loans to your forecast — whether for general funding or to pay for specific purchases like a company car — is easy. Just fill in the details below, and we will calculate the amortization schedule, determine your payments, and incorporate the correct principal and interest payments into your financial projections.

Be sure not to add your loan payments as a separate expense. If you did that already, go delete that expense. All you need to do with loans is tell us about them here, and we'll take care of the payback details.

Note that this feature assumes you are following the standard repayment schedule. Want to pay a loan off faster than required, incorporate a balloon payment at the end, or otherwise customize the payment schedule? In those cases, cancel this loan, and use the Add Other option instead.

What do you want to call it?

Current borrowing238

When will you receive it?

Before plan start date

How much do you owe as of your start date?

Your forecast starts in January 2015, so enter the outstanding balance as of the start of that month.

\$2000

How many payments remain as of your start date?

Enter the number of monthly payments remaining on this loan at the start of January 2015. We'll use that to calculate your payment details.

12

- Next, the capital contributions. The soup subscription founders entered the \$30,000 they intended to invest as initial capital. This shows in Illustration A-4.

Illustration A-4: LivePlan and Capital Contributions

The screenshot shows a dialog box titled "Tell us about this investment" with a green header bar and a close button (X) in the top right corner. The dialog contains the following sections:

- Tips about equity investments**: A text box explaining that equity investments are injections of cash in exchange for partial ownership, with no debt involved and no obligation to pay anything back. These investments will show up in the equity section of the balance sheet as "paid-in capital."
- What do you want to call it?**: A text input field containing "Initial founders' investment" and a small "227" icon in the bottom right corner.
- How do you want to enter it?**: Three radio button options: "One-time amount" (selected), "Constant amount", and "Varying amounts over time".
- How much will you receive and when?**: Two input fields. The first is a currency field with a dollar sign and the value "30000". The second is a date field with the value "Jan 2019" and a dropdown arrow.

At the bottom of the dialog, there is a trash can icon on the left, and two buttons: "Cancel" and "Save & Close" on the right.

How to Estimate Starting Costs

Obviously, the goal with starting costs isn't just to track them, but to estimate them ahead of time so you have a better idea, before you start a new business, of what the financial costs might be. Breaking the items down into a practical list makes the educated guess a lot easier. Ideally, you know the business you want to start, you are already familiar with the industry, so you can do a useful estimate for most of the startup costs from your own experience. If you don't have enough firsthand knowledge, then you should be talking to people who do. For others, such as insurance, legal costs, or graphic design for logos, call some providers or brokers, and talk to partners; educate those guesses.

Starting Cash is the Hardest and Most Important

How much cash do you need in the bank, as you launch? That's usually the toughest starting cost question. It's also prone to misinformation, such as those alleged rules of thumb you can find everywhere, saying you need to have a year's worth of expenses, or six months' worth,

before you start. It's not that simple. For most businesses, the startup cash isn't a matter of what's ideal, or what some expert says is the rule of thumb—it's how much money you have, can get, and are willing to risk.

I use my LivePlan tools to calculate what I need for opening cash based on the rest of the assumptions. I finish my sales forecast, spending budget, and related assumptions. I leave the cash balance at zero and look at the projected cash flow. That shows how much (at least in theory, according to assumptions) the startup really needs in cash to support the business as it grows, before it reaches a monthly cash flow break-even point. In every realistic startup projection I've ever seen, cash flow looks negative in the beginning. I see how negative it gets, and then I add the initial cash balance to keep it positive.



Find Your Startup Costs Sweet Spot

There is no magic startup costs estimate for a given business. Every startup has its own natural level of startup costs. It's built into the circumstances, like strategy, location, and resources. Call it the natural startup level or maybe the sweet spot.

1. The Plan

For example, in her lean business plan, Magda's restaurant deli in the office park needs about \$60,000, and Garrett's bicycle store needs about \$125,000. The level is determined by factors like strategy, scope, founders' objectives, location, and so forth. In both cases, the entrepreneurs have lists of assets they need and expenses they'll incur. Let's call these lists the natural startup level, which is built into the nature of the business, something like DNA.

Startup cost estimates have three parts: a list of expenses, a list of assets needed, and an initial cash number calculated to cover the company through the early months when most startups are still too young to generate sufficient revenue to cover their monthly costs.

It's not just a matter of industry type or best practices; strategy, resources, and location make huge differences. The fact that it's a Vietnamese restaurant or a graphic arts business or a retail shoe store doesn't determine the natural startup level, by itself. A lot depends on where, by whom, with what strategy, and what resources.

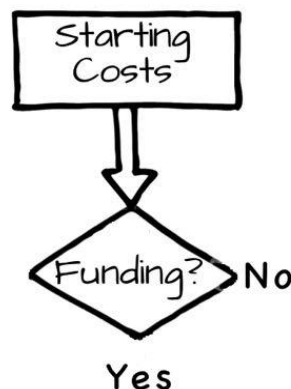
While we don't know it for sure ever—because even after we count the actual costs, we can always second-guess our actual spending—I do believe we can understand something like natural levels, related to the nature of the specific startup.

Marketing strategy, for example, might make a huge difference. The company planning to buy web traffic will naturally spend much more in its early months than the company planning to depend on viral word of mouth. It's in the plan.

So too with location, product development strategy, management team and compensation, lots of different factors. They're all in the plan. They result in our natural startup level.

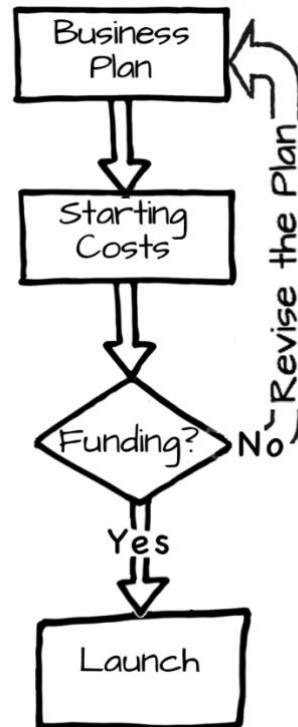
2. Funding or Not Funding

There's an obvious relationship between the amount of money needed and whether or not there's funding, and where and how you seek that funding. It's not random; it's related to the plan itself. Here again is the idea of a natural level, of a fit between the nature of the business startup, and its funding strategy.



It seems that you start with your own resources, and if that's enough, you stop there too. You look at what you can borrow. And you deal with realities of friends and family (limited for most people), angel investment (for more money, but also limited by realities of investor needs, payoffs, etc.), and venture capital (available for only a few very high-end plans, with good teams, defensible markets, scalability, etc.).

3. Launch or Revise



Somewhere in this process is a sense of scale and reality. If the natural startup cost is \$2 million but you don't have a proven team and a strong plan, then you don't just raise less money, and you don't just make do with less. No—and this is important—at that point, you have to revise your plan. You don't just go blindly on spending money (and probably dumping it down the drain) if the money raised, or the money raisable, doesn't match the amount the plan requires.

Revise the plan. Lower your sites. Narrow your market. Slow your projected growth rate.

Bring in a stronger team. New partners? More experienced people? Maybe a different ownership structure will help.

And don't forget what we call bootstrapping, which means launching a business without any outside investment. Scale it down to just what you can actually do without other people's money.

I've done that myself and had it work to build a company that ended up profitable, with multi-million-dollar sales, no debt, and more than 50 employees. And when you do it without investors, you own it all yourself.

What's really important is that you have to jump out of a flawed assumption set and revise the plan. I've seen this too often: people do the plan, set the amounts, fail the funding, and then just keep going, but without the needed funding.

And that's just not likely to work. More important, it is likely to cause you to fail and lose money.

Repetition for emphasis: you revise the plan to give it a different natural need level. You don't just make do with less. You also do less. Otherwise, it's not realistic.

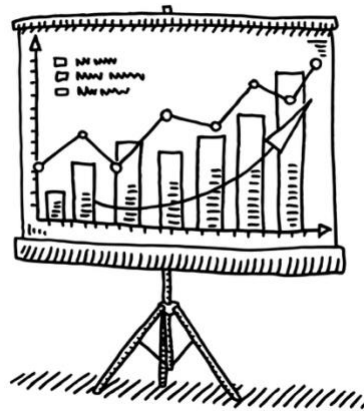
Appendix B: Sharing Your Plan

“Power is gained by sharing knowledge, not by hoarding it.”

– Anonymous

“Tell that to the guy who sold the OS to Bill Gates.”

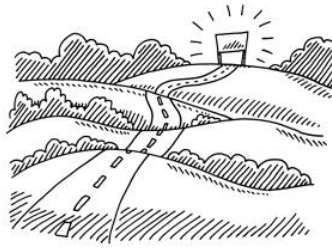
– Anonymous



What do you do with your lean plan when you need to show it to outsiders? You dress it up. You take your core updated lean plan and add the summaries, descriptions, and supporting information you need to serve your business purpose.

This appendix explains how to take your lean plan and dress it up with a pitch presentation, summary memo, or elevator speech.

The Business Plan Event



I refer to the phrase “business plan event” as some business development that requires you to show a business plan to somebody. The most common business plan events relate to getting investments or business loans. Both of these business events require presenting a business plan to somebody outside your company. Other less obvious business plan events are triggered by divorce, death, opening a merchant account, bringing in partners, selling the business, and so forth.

Assess Your Specific Needs

Make sure you understand the real need for your specific business plan event. Always know who will read your plan and what they’ll be looking for when they do. For example:

- Investors review a summary memo or executive summary, not the whole plan. If they like the summary, then they’ll look for a short pitch. If they like the pitch, then they’ll want a business plan to use for due diligence—and sometimes the lean plan is enough for due diligence purposes, without the elaborate plan. Always keep the summary, pitch, and latest lean business plan aligned so they all say the same thing, but for a different medium.
- Bankers want to see the company legal details and serious past financial results, along with a fairly standard description of the business, product, market, and team. They’ll also want to see personal financial statements of business owners. And they like a good executive summary so they don’t have to read the whole plan, just leaf through it to find the financials. So your lean plan plus a short summary may be enough because the formal loan application includes a lot of the details.
- Academics will most likely want to see a more traditional business plan with detailed market and industry analysis and sophisticated financial analysis such as NPV (net

present value) and IRR (internal rate of return). I won't define either of these here because if you're in the academic mode you have plenty of information on that already; and if you aren't, you don't need them. Real investors and bankers pay no attention to either of these analyses.

These are just a few examples. There are also plans related to new expansions inside larger companies, divorce settlements, retirement and estate planning, selling a business, valuation for tax purposes, and other business plan events.

Tip: "Business plan" means different things to different people. If you're not sure what's required for a specific business plan event, ask. Ask a person who will be reading the plan. Ask for a sample of one she or he likes. Ask what format, how long, what it should cover. You shouldn't have to guess.

Lead with Stories

"All human beings have an innate need to hear and tell stories and to have a story to live by."

~Harvey Cox

Before you write, before you do summaries or slides, get your stories straight. The stories apply to all the variations of communications with outsiders, plan, pitch, or whatever.

Every year I see several dozen business pitches, I read hundreds of summary memos, and I read 50 or more formal business plans. The best of them lead with stories. For example, they start by presenting a problem and follow with their business' solution to that problem. Some start with a market story, highlighting the need. There is no magic formula defining which story to use, exactly; but the plan for outsiders is to describe and explain, so stories are essential. Numbers are nice too, but stories give the numbers context and relevance.

Start with an image that illustrates the problem. A plan for a new high-tech, smog-free technology starts with a picture of a smog-choked city. A pitch for distributing restaurant leftovers to homeless people starts with a picture of the garbage area behind a restaurant, full of discarded food. A pitch for a worldwide crafts market starts with a picture of an African woman who would be able to sell her crafts worldwide using just her mobile phone.

When you can't illustrate a more abstract problem, highlight a person or people who have a need and will benefit from the solution. A plan for a video game that helps autistic children starts with a close-up of a specific child and his parents. A pitch for a new medical technology starts with two aging baby boomers. I still remember one that started with a graveyard and a claim for a percent of deaths that could be reduced by a new device.

Make it dramatic. You want to inspire as well as communicate. You want your audience to see it for themselves, in their own imaginations.

And maintain the drama with the solution. In the first example above, they showed a picture of their new-technology, clean-air brick ovens installed and working. In the second, they showed a branded delivery vehicle outside a homeless shelter. In the third, it was a picture of a rudimentary mobile phone with programming on it superimposed over one of the major crafts online sites.

Be strategic, and sensitive to your unique story. Depending on what works, you might use a picture of the product, or the website, maybe the technology team, or whatever works to highlight what you want to show to your specific business audience.

The stories with pictures are especially important with the business pitches, which are normally slide decks done in PowerPoint or Keynote; but they also work with business plan documents and summary memos. Even a 60-second elevator speech works better going from problem to solution to how this company is uniquely positioned to develop and sell that solution.

Develop Summaries

I would have written a shorter letter, but I did not have the time.

~ Blaise Pascal

Keep your summary short, cover the highlights, and assume key people will read this summary and nothing else. It's a front door. Whether it's an executive summary that comes first in a document, or a summary memo, make that reader want more information.

A good summary is a collection of tips of the iceberg. Each one has enough information to imply its entire iceberg, but it can't go too deep, and it has to leave the iceberg somewhere.

Don't promise in the summary anything you can't back up in the document or following discussions.

As your plan changes, rewrite and revise your summary to keep it fresh and keep it aligned with the plan.

What to Include in the Summary

LivePlan has a useful standard setting for an executive summary, with standard topics. Use it.

Beyond the standard, you can add topics as needed, or delete the standard ones. As you summarize, keep in mind the nature of your business plan event. Choose what to include based on specific needs.

Different experts have different opinions on the ideal length of a summary. I've always recommended a summary of 2 to 5 pages, which can be used as a stand-alone summary memo where that's appropriate. For example, in my angel investment group, we don't read full business plans of all the startups that apply for investment. We eliminate some proposals just from reading the summary. We read the full business plans only after deciding, from the summary, that we want to know more.

A generalized summary will include the obvious information such as essential business details, what you sell, what locations, projected sales growth, profitability, and news you don't want anybody to miss. It's a good place to put a highlights chart, a bar chart that shows sales, gross margin, and profits before interest and taxes for the next three years. You should also cite and explain those numbers in the text.

However, generalized summaries are as rare as generalized business plan events. Write a new summary for each new event. Tailor it to match the requirements of your specific business plan event.

For example, a plan to be used while seeking investment performs a sales function. You are selling your concept, your startup, or your growing company to an outsider who is interested in becoming an investor. So put yourself in the investor's place and emphasize the elements that will make her money. Put management team, market potential, scalability, defensibility, and possible exits where she can see them.

Highlight whatever is strongest about your plan, compared to others. So if you have a venture already backed by major brand-name backers, say so early in the summary. If you've got a founders' team that includes several known entrepreneurs with good track records, then put it up front. If you have a good business track record, like impressive early sales or landmark deals with major channels, corporations, or governments, put that first. If you have an amazing new invention or break-through technology, lead with that. Use good judgment. You're an editor, at this point, looking at things through the audience's eyes.

Summary Formats

- An executive summary can be the first chapter of a business plan document or a stand-alone document separate from the business plan. It assumes the more elaborate document exists. It can be printed, sent as an electronic (PDF) document, or left on the web with password protection.
- A summary memo stands alone. It can be a document on its own or attached to an email, or it can be text in an email.
- You may also need to summarize a market analysis, competition, marketing plan, or product plan as an addition to a lean business plan when facing some business plan events. These, however, often appear in pitches instead of as summary documents.
- What people refer to as a one-page business plan is also a summary. Occasionally a one-page summary is called a pitch, or a business pitch. LivePlan's pitch page is a one-page summary.
- I've seen short videos serve as summaries. They have to be just a few minutes, ideally just one minute, never more than three. They cover the same ground as the summary. They are usually password protected.
- An elevator speech is also a summary, but delivered quickly—in as little as a single minute—and verbally.

Your Business Pitch

"The purpose of a pitch is to stimulate interest, not to close a deal."

~ Guy Kawasaki

A business pitch is a presentation. It includes a deck of slides that serves as a presentation aid and background, and the verbal discussion that begins as a planned talk and ends up with questions and answers. Your LivePlan will help you export visuals from your plan to help with the slide deck. The classic pitch is one delivered by startup founders to potential investors. That same pitch is also used in business classrooms and business plan and venture competitions, in which students and startup founders pitch to judges, who are usually investors.

There are two kinds of slide decks associated with the business pitch. The first and most important is the deck intended for the presentation itself. That's the one you read about most often. It should be almost entirely images, each slide with its title and an image, but very little text. The images are photographs, business charts, and diagrams. It keeps the focus of attention on the speaker, not the slides. It doesn't encourage the audience to read text from the slides. It doesn't have bullet points people will read.

The second kind of pitch deck should be called the leave-behind pitch. It stands alone, to be read, not presented. It should reflect the main presentation and cover the same content. It might even have the same number of slides in the same order as the main presentation; but it has a lot more words because its business purpose requires that.

Don't confuse the two: A pitch to be read must be very different from a pitch that supports a live presentation with you talking. These require different styles for different business situations.

Most of what you read about business pitches focuses on the pitch deck and pitch presentation startup founders deliver to potential investors.

In either case, what you want to show is something like this (but be flexible and sensitive to your specific audience and specific business situation; this is just a sample):

- Problem: Show a problem to solve, ideally one that investors will understand immediately, and relate to. You can refer to examples in the previous section, [Lead With Stories](#).
- Solution: How is your startup going to solve that problem? What do you do? Ideally, the solution is something investors will also understand and relate to. And there is a good image to show. You can refer to examples of this one also in [Lead With Stories](#).

- Market potential: How many people/buyers have the problem and how much is the solution worth? If the story works, the numbers are supplemental, but good to show. If the story doesn't work, nobody cares about the numbers.
- Secret sauce: You decide what to highlight here, depending on the audience. Investors and business plan contest judges want to see technology, trade secrets, existing market position, or some other fact that helps you establish barriers to entry and protect your competitive advantage.
- The team: Investors need to see a credible startup team, with previous startup experience and background and experience specifically related to the problem and the opportunity.
- Traction: Show milestones achieved, momentum, traffic, anything you can to make your story—and the opportunity—presentable. Web traffic or downloads are excellent. Success on Kickstarter is also excellent. Early sales, and firm commitments from important clients or distributors are also good.
- All the rest: Flesh it out as needed, depending on your specific case, with highlights investors will look for. Exit strategies, competition, market strategy. Be sure to have projected P&L as a bar chart and have solid projected P&L, Balance, and Cash Flow to back it up.

Now go find David S. Rose's TED talk on pitching for investors, and find some of Nancy Duarte's work on storytelling and presentations—her TED talks or her book *Resonate*, and, on the web, look up Guy Kawasaki's content for “The Art of the Pitch,” a chapter in his book *The Art of the Start*. You might also do a web search for Seth Godin's *Death by PowerPoint*.

Your Elevator Speech

“The only people who don’t need elevator pitches are elevator salesmen.”

~ Jarod Kinz

If you can’t say it in 60 seconds, you have a problem. Your strategy isn’t clear enough. Nowadays we call it “the elevator speech,” meaning a quick description of the business that you could do in the time you share with a stranger in an elevator. It’s becoming popular in the everyday language of the entrepreneur, venture capitalist, and the teacher of entrepreneurship.

I don’t think it’s academic. I think it’s important. I think it’s a great exercise that everybody in business should be able to do. Let’s get simple, let’s get focused, and let’s get powerful.

Your lean plan is simple and concise. What better way to condense it than in a quick elevator speech? If you can’t do it, worry.

Part 1: Personalize

As I said in [Lead with Stories](#), start with a problem, and use a good example to make it stand out. Start your speech with a person (or business, or organization) in a situation. Personalize. Identify clearly. For example:

Terry is a successful business owner worried about social media. She knows her business should be on Twitter, Facebook, and the other major platforms, but she’s already busy running a business, and she doesn’t have time to do meaningful social media as well (Have Presence).

Jane Smith wants to do her own business plan. She knows her business and what she wants to do, but needs help organizing the plan and getting the right pieces together. The plan needs to look professional because she’s promised to show it to her bank as part of the merchant account process (LivePlan).

Notice that in both of these examples I could be much more general. Have Presence targets small business owners. Business Plan Software is for the do-it-yourselfer who wants good

business planning. But instead of generally describing a market, I've made it personal. Details and granularity work.

Sometimes you can get away with generalizing. "Farmers in the Willamette Valley," for example, or "parents of gifted children." It's an easy way to slide into describing a market. However, I suspect that you're almost always better off starting with a more readily imaginable single person, and let that person stand for your target market.

Part 2: Why You

In the next part of your elevator speech address "Why you"? Why your business? What's special about you that makes your offering or solution interesting to the target person or organization you just identified?

This is where you bring in your background, your core competence, your track record, your management team, or whatever. For example:

Have Presence is a small business like her own, run by three co-owners who love social media, understand small business, and do only thoughtful, strategic social media updates for clients they know and represent well.

Palo Alto Software has dedicated itself to business planning for more than 20 years. Its founder is one of the best-known experts in the field. Its current management team grew up with business planning, in the trenches. The 18-person development team has more than 50-person years in the same focused area.

What we focus on here is core competence and differentiation. And, in the classic elevator speech, you have to say it fast. You make your point quickly and go on.

Make sure your point is the right point: benefits to the target customer. It's not what's great about you, but rather, what about you lends credibility to your ability to meet the need and solve the problem.

You might also think of this as the classic “What do you bring to the party?” question. It’s not just your brilliance or good looks or great track record, it’s fostering credibility for solving the problem.

Part 3: What You Offer

Now explain what that potential buyer (or investor) gets. Or the organization. You’ve personalized the need or want, identified your unique qualities to solve the problem, and now you have to put the need or want in concrete terms that anybody can see. For example:

The Have Presence staff gives Terry thoughtful, strategic social media updates for clients they know and represent well. They don’t tell Terry what and how to do it. Instead, they do the work, manage the social media, and give her business social media presence, for a monthly fee that’s considerably less than a half-time employee, without the long-term commitment.

LivePlan lets Jane jump into and out of her business plan at a moment’s notice whenever she wants. She can start with the core strategy and build it in blocks, planning while she goes, refining projections as needed. It’s built around a solid error-checked, financially and mathematically correct financial model, and a generalized set of suggestions for outlines, but is also completely flexible for adding and deleting topics and creating a unique business plan. Each task, whether topic or table, comes with easy-to-understand instructions and useful examples.

In each example here we see clearly how the solution meets the need or solves the problem. Forget features as much as possible, and illustrate benefits. You’ve already described the person with the situation, and built up your ability to solve it, so now it’s just about the solution. Stay focused and concentrated. People will get one, or at the most, two unique attributes of your business offering. Don’t confuse them with more.

Part 4: Close Well. Ask for What You Need

The close depends on who you are and what you want. If you've personalized in the first part, sold yourself and/or your organization in the second, and established the attractiveness or suitability of the business offering in the third, it's time to finish strong with a closing.

Your closing depends completely on context. What do you want from the person or people you're talking to? The classic elevator speech context is for a venture competition or a search for investors. But there's also the true elevator speech for the established company, simply describing your company to somebody who asked, with no real close. Be honest, you're not always asking for an order, even when you're just chatting with the person in the next seat on the airplane. If you are trying to sell, then do ask for the order. Seriously: "If you give me a card, I'll send you a copy with an invoice." Seriously: ask for the order. "If you don't like it, send it back. Here's my card."

For the venture competition or investment variety elevator speech, don't try to convey too much information. Do establish in general terms where you are or what you want. "We're looking for seed money of half a million dollars." Or "We're now raising round-two financing of three million dollars to be used for the mainstream marketing launch." Or "We're looking for serious marketing partners able to put money up front in return for privileged first-year pricing." Or "We're trying to establish a royalty relationship with an appropriate manufacturer." And then, ask for a business card, and give one. "If you know anybody who might fit that bill, feel free to recommend us." Or "Please give me a call." Don't offer to send a business plan, and don't ask directly when it's about investment; reduce the awkwardness by suggesting that your audience might know somebody, not that your audience might invest.

Don't talk terms in the elevator speech. Just establish what you want or need.

If you're in a real elevator with a real potential investor, you probably soft pedal: "If you know anybody who might be interested, please pass this along. Or maybe you want a business card and permission to send a follow-up email."

And if you're doing an elevator speech in a business venture competition, close with an appropriate call for investment. Venture competitions are always keying on the would-be or hypothetical pitch to the investor, so make it clear. The better ones end up with something

relatively definitive like a reference to seed capital or first-round equity investment. Stay general.
Make them want more.

Appendix C: About Angel Investment

“The more angels we have in Silicon Valley, the better. We are funding innovation. We are funding the next Facebook, Google, and Twitter.”

~ Ron Conway, well-known Silicon Valley angel investor

Angel investment? Allow me to help you understand what that is, whether or not it applies to you, how it works, and how your lean business plan fits into the process. And this is about *investment*, not a loan, and not a grant. Somebody invests in your business by giving you the business money to spend. In return, the investor buys a share of your business. You don't pay the investor back, as you would for a loan. The investors get a return on investment if and when they can sell the share of your business they bought for a profit. For example, angel investors buy 40% of your company for \$400,000, and then they sell that share three years later for \$1.2 million. The return on the initial investment was 200% ($800/400$). We can calculate from these numbers that the valuation of the company for the initial investment was \$1 million, and at *exit* (when the investor sells out), it was \$3 million ($40\%/\$1.2M$).

Sometimes a person buys a share in a business in order to contribute to the business, help run it, take a salary perhaps, or share in the profits, but not necessarily to sell the ownership in a few years. That's not angel investment. And when your rich aunt gives you \$25,000 to start a business, that's friends and family investment if she then owns a share of your company; and generosity and family spirit if she doesn't.

You don't pay investors back. You make your business worth more so they can sell their shares to somebody else to get a return, at exit.

There are books for angel investors, books about angel investors, and books about how to secure angel investment. There are also several well-known angel investment platforms. The website at gust.com is a platform for angel investors and entrepreneurs to share information, and it has a wealth of information about angels, in videos and articles. The Angel Capital Association (<http://www.angelcapitalassociation.org/>) has directories, definitions, lists, and explanations. You can also check out [AngelList](#) and do a web search for “angel investors.”

Angel investors generally focus on seed money—early investment for startups at early stages of growth—for amounts less than \$1 million. Several experts have different definitions of angel investment, on how many angel investors exist, and how much money they invest. As I write this in 2018, the latest available statistics (Illustration C-1) come from 2015. Approximately 300,000 angel investors did 71,000 deals with startups, mostly for seed financing and early stages.

Illustration C-1: Angel Investment and Venture Capital

ANGELS FUND MAJORITY OF STARTUPS	
Angel Investors	Venture Capital
<ul style="list-style-type: none"> • \$24.6 billion • 71,000 deals • 17,750 seed • 31,950 early stage • 19,170 expansion • 305,000 individuals 	<ul style="list-style-type: none"> • \$59.1 billion* • 4,380 deals • 186 seed • 2,219 early stage • 1,975 later/expansion • 718 active firms
<small>Sources: "Angel Investing Market for 2015, Center for Venture Research/ UNH; NVCA 2016 Yearbook; PwC MoneyTree</small>	

Legally, Angel investment is people who are accredited investors as defined by the U.S. Securities and Exchange Commission (SEC), which sets wealth criteria:

- Either earned income that exceeded \$200,000 (or \$300,000 together with a spouse) in each of the prior two years, and reasonably expects the same for the current year;
- or has a net worth over \$1 million, either alone or together with a spouse (excluding the value of the person's primary residence).

Those rules were going to relax with the Jobs Act of 2012, which was supposed to open the gate to crowd funding, but hasn't yet. Startups looking for investment are still going to angel investors pretty much the same way they have for several decades. And angel investors are still mostly wealthy individuals, often with tech industry background, often former entrepreneurs whose former endeavors succeeded. There are listings of angel investors on the web,

and gust.com lists more than 600 groups of angel investors operating in the United States and elsewhere.

Outside Investors

First, I see this confusion a lot: People use the terms *venture capital*, *venture capitalist*, and *VC* to apply to any outsider investing in a startup. However, it's useful to draw some distinctions in this area, between three important classifications: venture capital, angel investors, and anybody else.

Venture Capital

Venture capital means big-money investment managed by professional investors spending other people's money. The money comes from extremely wealthy people, insurance companies, university endowments, big corporations, etc. Think of Kleiner Perkins et al., First Round, Softbank, Oak, etc. Venture capital usually comes in millions of dollars. Over the last few years, Venture Capital has moved towards larger investments for companies further along the business growth cycle, and away from smaller investments for true startups.

The most important distinctions between angels and VCS are:

- Angels invest their own money; VCs invest other people's money.
- Angel investment is much more likely to be in hundreds of thousands than in millions of dollars.
- Aside from those two distinctions, it is generally true that VCs will be more rigorous in studying (called "due diligence") the investment before they make it. Both angels and VCs will have similar processes for looking at summaries, then pitches, then business plans.

Friends and Family

Anything else is called "friends and family," which really means "not VC" and "not angel investment." The laws on investment allow a few so-called friends and family, but there are limits. The intention of all the regulation in this area is to prevent the kind of stock frauds that were rampant during the Great Depression.

Will Your Business get Angel Investment?

Angel investment is an option for a small minority of startups that combine the right factors. There are always exceptions to the rule, but in general, to be interesting to angel investors, a business has to have at least these four qualities:

1. You need to show attractive potential growth in sales. Think of big growth, like from zero to \$5 million annually, or even better, \$10 or \$20 million annually, in three to five years. Nobody can predict the future, but angel investors pride themselves on being able to make good guesses. From the entrepreneur's side of the table, that means having a credible growth story. Numbers aren't enough. Anybody can type numbers into a spreadsheet. You need a story, along the lines I included earlier in [Lead with Stories](#). Angel investors will read your story and build their own guess about the company's potential. At that point, the numbers (market analysis, demographics, research) are useful if the story rings true.
2. You need to be able to grow with scale. That means your business can increase its unit sales very fast without having a proportionate increase in fixed costs, head count, and marketing expenses. Most product businesses can scale larger by adding capacity to a product manufacturing process in a relatively easy fashion. Most web businesses can grow easily since it's relatively simple to add proper bandwidth when increasing the number of users of a website or application. But service businesses often suffer the problem of needing to increase personnel to grow. Investors call it a *body shop* when doubling sales is possible only by doubling the fixed costs and numbers of employees; and that's not a good thing. Sometimes service businesses will try to generate scale with franchising. But franchising isn't a credible option for angel investors until you have a very successful working first venue (or two or three).
3. You need to have some way to ward off or delay competition. Investors talk about a so-called *secret sauce*, or technology, patents, trade secret, or some way to create barriers to entry. The worry is that a well-funded big company will jump in on a new business, outspend it and take away its opportunity. People talk of the so-called *first mover advantage* that makes an idea defensible if the initial entrant to the market grows fast and builds its customer base very quickly. That works sometimes, but not always. Investors will use their own judgment in reviewing the idea, not necessarily what you tell them.

4. You need a credible management team. Angel investors are not likely to invest in a startup that doesn't have at least one founder who has already been involved in a startup. This is disappointing to first-time entrepreneurs, but the fact is that in startups, nothing substitutes for experience.

The Normal Process for Angel Investment

First of all, there is no normal. Angel investors are individuals, investing their own money. Many join groups that will invite startups to pitch for the group; but many operate as individuals. So what I say here is what's common, what I'm familiar with, and what usually happens.

It starts with an introduction. The easiest version of the introduction is a formal submission to an angel investment group, using one of the angel platforms like gust.com or Angel List (angellist.co). Also, you can ask for an introduction from somebody you know who might know angel investors: maybe a business school professor, or somebody from a local chamber of commerce. Or perhaps you attend a business event. Angel investors don't normally read unsolicited emails, but there are exceptions to every rule. If you're talking to a potential angel investor, keep your [elevator speech](#) (Appendix B) in mind, and if the occasion fits, use it.

The angel investors will look at your [summaries](#)—a summary memo sent via email, perhaps, or a business summary submitted on one of the platforms. This is in Appendix B.

If the summary catches their attention, and they like what they see there, you'll be invited to do a [business pitch](#). This is also in Appendix B.

If they hear the pitch, ask questions, get some answers, and are still interested, then they'll want to see your business plan. That used to be the standard formal business plan, what the lean startup people call the elaborate business plan. However, times are changing, and almost all angel investors will settle for just the lean business plan after they've met you, talked with you, and heard your business pitch. Your lean plan, summary memo, pitch deck, and perhaps some additional details on your market and traction are enough for the due diligence every conscientious investor does before making the investment.

Due diligence is a serious process that takes weeks at least, and often months. Investors need to check lots of details including legal specifics, contracts, deals with suppliers and distributors,

important customers, technology, patents, and other things. It's extremely rare to go from introduction to depositing a check in a matter of weeks.

Appendix D: Sample Lean Plan 1

The following pages include the complete sample business lean business plan we developed for *Soup There It Is*, a hypothetical soup subscription startup in Portland, OR. The people mentioned, locations, and other businesses are fictional. Any similarity to real people or existing businesses is entirely coincidental.

Soup There It Is

Business Plan

Strategy

Our Opportunity

Problem worth solving

Healthy, organic, soup lunches delivered to the workplace on a subscription basis. For growing numbers of health-and-nutrition conscious office workers. A perfect answer for employers who want to have employees stay in for lunch.

Target market

1. Portland OR office locations
2. 25 or more people in single location
3. Small-medium businesses
4. Larger law firms & professionals

Our solution

Soup There It Is delivers healthy soup to the workplace as a service to employers.

Competitors	How our solution is better
Ad-hoc to-go orders	Dependable every day for easy management
Ad-hoc to-go orders	Dependable every day delivery no hassle
Ad-hoc to-go orders	Cheaper per lunch delivered
Equipped lunch room	Doesn't require in-house management

Team and Key Roles



Amy Ortiz
President

Successful founder and owner of Amy's Organic Catering. BA anthropology U. of O. Graduated from 3-year Small Business Management at SBDC



Maura Benson
Website and IT

"Rock-star programmer," freelancer, bought in. BS Computer Science OSU.



Kathy Madison
Marketing

10 years marketing at Whole Foods. BA literature Reed College



Peter Madison
Advisor & Co-founder

Kathy's husband Peter is investing from the beginning and will be active advisor, not employee. MBA U. of Washington. Founder of CSI.

Execution

Products

We focus on employers for good reason. We may go way beyond this later on, but for now, it gives us a minimum viable product, and an opportunity we can manage. Some important points related to how we can offer this at the prices we can:

1. We launch in a pilot phase in which **we will not serve locations including fewer than 10 subscriptions.**
2. Subscriptions can be billed in bulk to the company, or to the individual.
3. We will bill subscriber companies monthly. Actual bill will depend on actual deliveries, calculated at the end of the month. Individual subscribers will have credit cards on file.
4. Individuals will be responsible for dealing with day-to-day changes, via our simple website with a good interface. Our client pays for a minimum of 10 soups per day whether we deliver 10 or not.
5. Each order is set default at the beginning. And each time a soup is changed, the new soup becomes default. Subscribers can change every day if they want. It's up to them. If they do nothing, they get the same soup they ordered yesterday.
6. Customization is manageable. The permutations of customization are manageable. The website will have options to serve special needs including vegetarian, vegan, and gluten free.
7. Our soup thermos is part of the formula. Every day's delivery picks up the previous day's container, so a rotation of two per subscriber. Subscribers will be billed with no hassle \$14.95 whenever they lose their containers ... and we will sell the containers too, because people will like them for lunches for kids, packing for activities, etc. The containers control cost, simplify logistics, and solve a problem too.



Our advantages

- Credibility and reputation in quality of food and trends towards healthy, organic, farm to table, and local.
- The subscription business is a huge convenience on an ongoing basis, compared to having to order one by one, day by day.
- Established position in the social media and industry media.
- Identification of a volume opportunity, via employers, to develop the subscription business in a scalable way.
- The thermos itself, with our design, will be an advantage.

Roadmap

- Launch in March 2019. We start with the minimum viable product, soup only.
- Website sales of the thermos, and via Amazon, fall of 2019.
- Expansion to more options in 2020. Fuller menu. Explore sandwiches and other options at that point.
- Launch in other cities in 2021.

Marketing & Sales

Pricing

Unit economics:

- Given a 10-pot strategy for daily provision of soups, we believe we can deliver the daily portion of soup for \$1.25 per portion in actual food costs.
- We occupy two thermoses per subscription: one delivered and one picked up each day.
- With our volume delivery strategy, we see delivery costs of \$12 per delivery spread over 10 or more subscriptions. We average that as \$1.20 per subscription. It will be less where we have more subscribers per site, so this is conservative.
- A single portion of soup costs us \$0.45 in kitchen and labor costs.
- A thermos costs us about \$7.00. We need two per subscription. If each lasts two months—they should last much longer—that's a cost per meal of \$0.32 (\$14.00 divided by 44 meals).
- Total cost per serving: \$1.25 food, \$0.45 kitchen help, \$0.32 thermos, \$1.20 in delivery, for a total of \$3.22.
- Total cost per monthly subscription, @22 meals: \$70.84.

Subscription pricing:

- One monthly subscription, an average of 22 meals, costs \$99. That's \$4.54 per day.
- The first two thermoses are part of the subscription. From there on, thermoses are billed at \$9.95 for a subscriber.
- A thermos to a non-subscriber costs \$14.95. We sell them on Amazon for \$14.95 each.

Marketing Plan

- **Facebook and Twitter content:** Healthy eating, advantages of soups, recipes, lifestyle of the office worker, and events and issues for the Portland metro area.
- We establish Twitter allies by linking often to the content providers, potential clients, and media we want as allies.
- **Lunch promotions:** Once every 3 months have a company win a free soup lunch for 10, publicized in local media and social media.

- **Website reviews and testimonials:** Very important. We have to encourage good reviews without being too pushy. Reviews are critical.
- **Media coverage:** We are sure we'll get initial publicity in the Oregonian and Portland Business Journal, plus Silicon Forest and other important blogs.
- We accept speaking engagements from business organizations and startup organizations.
- **Blog:** Posts about soups, recipes, healthy eating, and office environment.
- **Advertising:** Facebook only at first. Starting with our Facebook business page. We like the ability to identify target audiences and control the budget with Facebook advertising.

Sales plan

- Concentrate first on landing business relationships with employers.
- We have a good list of 10 very strong prospected from our own contacts here in Portland.
- We grow with the help of a salesforce of part timers with food backgrounds operating on a low fixed cost and high commission.
- Our website at soupthere.com will have strong marketing component as well as hub and logistics for daily details.

Operations

Locations & Facilities

- We will start operating management out of Amy's apartment, and later on set up flexible management space in the Portland Customs House location of wework.
- We believe in remote working for admin, marketing, and sales employees. Office space is obsolete.
- Our kitchen is renting hours from 7 am to 11 am in Portland Contract Kitchens in Northeast Portland. Delivery will go from there.

Regulatory Requirements

- Amy is on top of local requirements for food preparation and kitchens. This is not trivial, by any means; but with our strategy of paying the hourly cost for the rental commercial kitchen, we have it covered.
- We are very aware of possible liabilities for food preparation. We trust our expertise.

Technology

- Our recipes for healthy eating in our own way is technology. We treat it carefully. We preserve our credibility at all costs.
- We use third-party add-ons for website features as much as possible.
- We maintain the absolute best in the market policy for the thermoses, which will be mission critical.

Milestones & Metrics

Milestones Table

Milestone	Due Date	Who's Responsible	Details
Business plan done	September 28, 2018	Amy and Peter	First draft. The initial lean plan sets main strategy and tactics, plus milestones, metrics, and financial projections
Bank account set up	November 06, 2018	Amy	Business account for the LLC. For <u>now</u> Amy should be the only signer.
Kitchen facility contracted	November 15, 2018	Amy and Kathy	Visit, review, decide among the several offerings of kitchen space for lease or by the hour in Portland area.
Website ready	December 10, 2018	Maura	With a lot of recognition that for the beginning adequate is good enough, but first impression and interface are also important. Amy and Kathy both have to sign off.
Legal entity finished	January 04, 2019	All 4 founders	LLC established and on the books as Oregon LLC
Initial funding checks in the bank	January 08, 2019	All 4 founders	\$10,000 each from Amy, Kathy, and Peter.
Social media platforms & profiles	January 10, 2019	Kathy	
Kitchen ready and stocked	February 10, 2019	Amy	
Launch	March 01, 2019	Amy, Maura, Kathy	First formal day of open for business
Thermos product launch marketing plan	August 15, 2019	Kathy	
Angel investment materials ready	September 17, 2019	Amy and Peter	Revised business plan, pitch deck, summaries on gust.com

Key metrics

Important subscription metrics:

- Total subscriptions
- New subscribers per month
- Cancellations per month (called churn)

Important fundamental metrics

- Gross margin
- Revenue growth monthly and annually
- Revenue per employee
- Average revenue per subscriber
- Cost of customer acquisition

Key assumptions

Regarding profits:

- Yes, we plan to lose money every year of the five-year forecast. That's strategic spending to grow revenues. We have an interesting market window that will draw competition if we're successful, so we have to grow fast, which means pricing low enough to generate growth, and spending substantially on marketing.
- The projected losses match the strategy of raising \$300K angel investment the first year, \$500K the second year, and \$2.5 million series A venture capital in the third year. This kind of funding goes hand in hand with unprofitable growth.
- We could have planned to grow to something like \$5 million per year in the Portland market, charging \$179 per month per subscription. We don't.
- Heavy salaries will be required as we grow. Marketing doesn't happen by itself. And admin will be serious as we grow as fast as we plan to grow.

Financial Plan

Use of funds

- The initial founder investment funds our launch period with startup expenses and deficit spending as shown in the appendices while we ramp up and win angel investment towards the end of the first year.
- Additional angel investment and venture capital fund ramp-up in heavy marketing expenses and admin to support infrastructure and logistics.

Sources of Funds

- The founders will invest \$30K to launch.
- We project two rounds of angel investment via convertible note. The first in November of our first year, \$300K. The second midway through the second year, \$500K.
- We project a \$2.5 million raise as Series A venture capital in the third year.

Exit strategy

Making the exit to liquidity for our investors is a main priority goal. We plan to become a desirable acquisition. Possibly ...

- ... for brands like Doordash or Blue Apron looking to expand delivery
- ... for brands like Whole Foods and similar to grow into delivery (or even Amazon.com, which now owns Whole Foods)
- ... for brands like Subway or Togos to expand into lunch delivery

The key to realistic exit is producing good numbers. We need rapid growth in subscribers and low churn. Profitability is not the priority. Growth is.

Statements

Projected Profit and Loss

	2019	2020	2021
Revenue	\$818,175	\$5,232,800	\$11,758,331
Direct Costs	\$433,614	\$2,844,774	\$6,341,574
Gross Margin	\$384,561	\$2,388,026	\$5,416,757
Gross Margin %	47%	46%	46%
Operating Expenses			
Salaries & Wages	\$94,000	\$1,118,000	\$2,236,800
Employee Related Expenses	\$18,800	\$223,600	\$447,360
Kitchen time	\$35,000	\$60,000	\$60,000
Facebook ads	\$20,870	\$36,000	\$48,000
Commissions	\$116,448	\$769,238	\$1,732,384
Office equipment etc.	\$5,000	\$20,000	\$50,000
Professionals: Legal, CPA etc.	\$4,500	\$3,000	\$5,000
Insurance	\$40,909	\$261,640	\$587,916
Other expenses	\$81,818	\$523,280	\$1,175,833
Amortization of Other Curre...	\$5,500	\$6,000	\$6,000
Total Operating Expenses	\$422,844	\$3,020,758	\$6,349,294
Operating Income	(\$38,283)	(\$632,732)	(\$932,537)
Interest Incurred		\$4,662	\$1,667
Depreciation and Amortizati...			
Income Taxes	\$0	\$0	\$0
Total Expenses	\$856,459	\$5,870,193	\$12,692,535
Net Profit	(\$38,283)	(\$637,394)	(\$934,204)
Net Profit/Sales	(5%)	(12%)	(8%)

Projected Balance Sheet

	2019	2020	2021
Cash	\$352,922	(\$5,797)	\$1,221,060
Accounts Receivable	\$104,482	\$285,093	\$610,473
Inventory	\$122,550	\$311,917	\$642,171
Other Current Assets	\$500	\$500	\$500
Total Current Assets	\$580,454	\$591,712	\$2,474,204
Long-Term Assets			
Accumulated Depreciation			
Total Long-Term Assets			
Total Assets	\$580,454	\$591,712	\$2,474,204
Accounts Payable	\$138,737	\$360,895	\$754,085
Income Taxes Payable	\$0	\$0	\$0
Sales Taxes Payable	\$0	\$0	\$0
Short-Term Debt	\$73,506	\$76,494	
Prepaid Revenue	\$0	\$0	\$0
Total Current Liabilities	\$212,243	\$437,389	\$754,085
Long-Term Debt	\$76,494	\$0	\$0
Total Liabilities	\$288,737	\$437,389	\$754,085
Paid-In Capital	\$330,000	\$830,000	\$3,330,000
Retained Earnings		(\$38,283)	(\$675,677)
Earnings	(\$38,283)	(\$637,394)	(\$934,204)
Total Owner's Equity	\$291,717	\$154,323	\$1,720,119
Total Liabilities & Equity	\$580,454	\$591,712	\$2,474,204

Projected Cash Flow Statement

	2019	2020	2021
Net Cash Flow from Opera...			
Net Profit	(\$38,283)	(\$637,394)	(\$934,204)
Depreciation & Amortization	\$5,500	\$6,000	\$6,000
Change in Accounts Receiva...	(\$104,482)	(\$180,611)	(\$325,381)
Change in Inventory	(\$122,550)	(\$189,366)	(\$330,254)
Change in Accounts Payable	\$138,737	\$222,157	\$393,190
Change in Income Tax Payab...	\$0	\$0	\$0
Change in Sales Tax Payable	\$0	\$0	\$0
Change in Prepaid Revenue	\$0	\$0	\$0
Net Cash Flow from Opera...	(\$121,078)	(\$779,214)	(\$1,190,649)
Investing & Financing			
Assets Purchased or Sold	(\$6,000)	(\$6,000)	(\$6,000)
Investments Received	\$330,000	\$500,000	\$2,500,000
Change in Long-Term Debt	\$76,494	(\$76,494)	\$0
Change in Short-Term Debt	\$73,506	\$2,988	(\$76,494)
Dividends & Distributions			
Net Cash Flow from Invest...	\$474,000	\$420,494	\$2,417,506
Cash at Beginning of Period	\$0	\$352,922	(\$5,797)
Net Change in Cash	\$352,922	(\$358,720)	\$1,226,857
Cash at End of Period	\$352,922	(\$5,797)	\$1,221,060

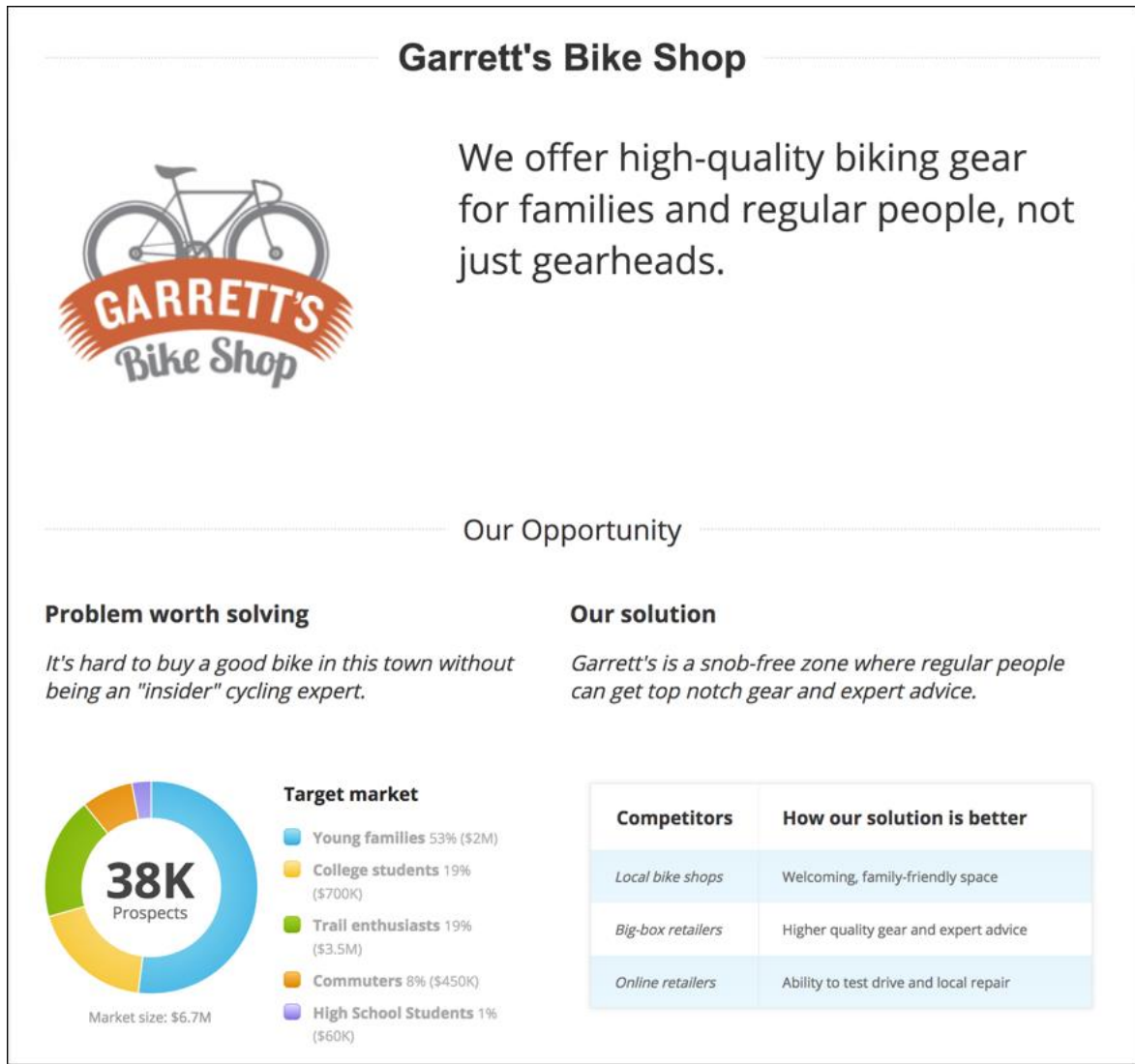
Note: The real plan follows with monthly projections in separate appendices. These are not included with this sample plan.

Appendix E: Sample Lean Plan 2

The following pages include the complete sample business lean business plan we developed for *Garrett's Bicycle Shop*, a hypothetical bicycle retail store in a university town. The people mentioned, locations, and other businesses are fictional. Any similarity to real people or existing businesses is entirely coincidental.

Garrett's Bicycle Shop

Strategy



Execution

Products

- **Bicycles.** Add more options in the retro-cruiser category.
- **Bicycles.** Focus used bikes on trade-ins to sell new. Improve used bike turnaround.
- **Accessories.** Review inventory for slow-selling items. Encourage special orders. Don't over-order to keep inventory lean.

- **Clothing.** Accelerate seasonality to improve turnover in clothing. Add university logo line.
- **Service:** promote tune-ups in Spring and September opening of school.

Sales and Marketing

- Location advantage. Make University Cycle Works the on-campus shop. We want them to see us as part of their daily experience, and a shop they can depend on for quick repair and maintenance service.
- Back to school specials, at the beginning of each term, including perhaps a free Kryptonite lock with a new bike purchase. We will try to have a special purchase of an economy value bike for each term.
- Spring special. This coincides with the beginning of spring term, but we will direct some of our advertising at the wider population as people hang up their skis and tune up their bikes.
- Coupons. Once every other month we will run a coupon for a service special in the university newspaper, the Daily Hyperbole. We also run this coupon as a banner ad in the Daily Hyperbole Online.
- Our content site will also serve as a marketing medium. Downloadable maps of the city bike routes, maps of rides outside the city area, give information about the store, and announce sales.
- 3 column inch ad appearing on a recurring schedule in the university newspaper.
- Slightly larger ads in the local newspaper during the weekends prior to special sales.
- Maintain bicycle markup between 30% and 40% depending upon the brand and model.
- Keystone pricing for parts and accessories.
- Adequately stock garments at the various price points.
- Maintain a basic "Hourly shop rate" at \$45/hour.

Concrete Specifics

Assumptions

8. Status quo: no major changes in economic picture locally, or beyond local in ways that change the local picture.
9. No significant new competition in the market.
10. No significant market-related events.

11. Significance of social media is growing. We can shift substantial marketing efforts toward social media without suffering loss of branding.
12. Growth of social media means customers control our brand. What's said in social media will be more important than what we say ourselves.
13. No significant new developments in technology to change our product portfolio.
14. No significant surprises in fashion to change our product portfolio.

Performance Metrics

- Sales, gross margin, expenses, and cash flow as in the lean plan
- Strategic updates 12 per week in Facebook, spaced over all 7 days
- 32 strategic tweets per week in Twitter, spaced over all 7 days
- 1 significant planned promotion event per quarter
- We participate in at least 5 community spirit events per year

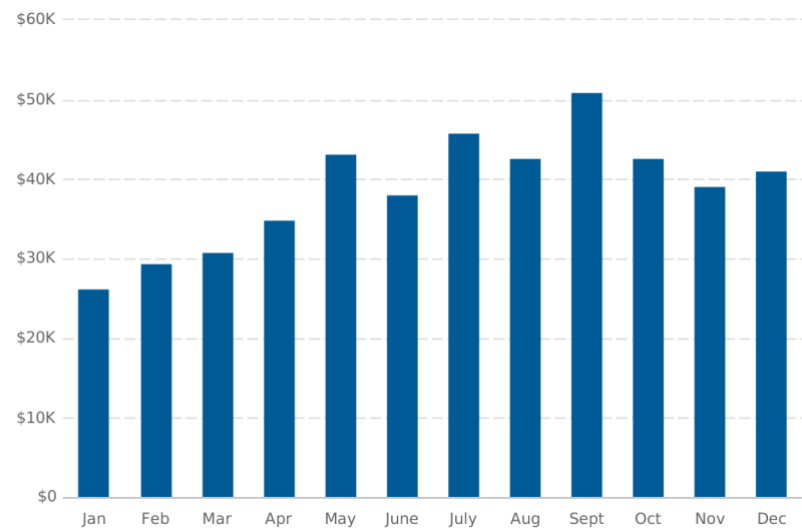
Milestones Table

Milestones Table				
	Milestone	Due Date	Who's Responsible	Details
<input type="checkbox"/>	Meet with Caroline to review Market Strategy	Sept 17, 2018	Garrett and Terry	
<input type="checkbox"/>	Investigate Inventory Turns	Oct 15, 2018	Garrett & Leslie	
<input type="checkbox"/>	Top 10 customer list	Nov 13, 2018	Terry	
<input type="checkbox"/>	Social media program	Jan 14, 2019	Terry	Let's make sure we're all on the same page with the new year. Social media priorities, content, emphasis, specific plans.
<input type="checkbox"/>	Monthly review	Jan 22, 2019	Garrett	We're moving this to the fourth Thursday this month because Jan. 1 is the first, and there's still some holiday. We won't review the year until next month.
<input type="checkbox"/>	Monthly review	Feb 19, 2019	Garrett	
<input type="checkbox"/>	Spring promotion plans	Mar 18, 2019	Terry	Bicycle season coming again. Review general marketing, specific sales and event schedules.
<input type="checkbox"/>	Monthly review	Mar 19, 2019	Garrett	
<input type="checkbox"/>	Monthly review	Apr 16, 2019	Garrett	
<input type="checkbox"/>	Host bike repair workshop	May 02, 2019	Terry	

Financial Projections

Revenue Forecast

Revenue by Month



Revenue Forecast Table

Revenue Forecast Table

[Edit](#)

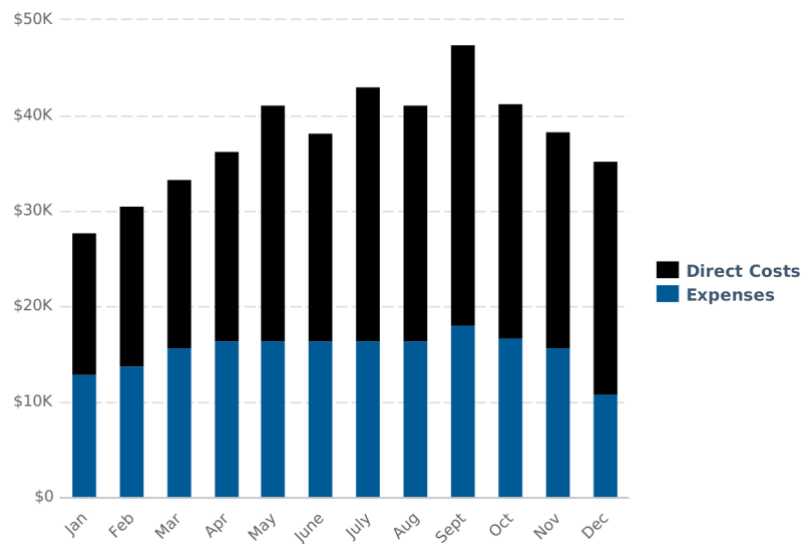
	2019	2020	2021
Revenue			
New Bicycles	\$272,000	\$300,000	\$325,000
Accessories and Parts	\$67,980	\$72,000	\$75,000
Clothing	\$81,600	\$87,000	\$93,000
Repair and Service	\$37,950	\$45,000	\$52,500
University Patrol Service Contr...	\$6,000	\$6,000	\$6,000
Total Revenue	\$465,530	\$510,000	\$551,500
Direct Cost			
New Bicycles	\$184,960	\$204,000	\$221,000
Accessories and Parts	\$33,990	\$36,000	\$37,500
Clothing	\$40,800	\$43,500	\$46,500
Repair and Service	\$7,590	\$9,000	\$10,500
University Patrol Service Contr...	\$300	\$300	\$300
Direct Labor			
Total direct costs	\$267,640	\$292,800	\$315,800
Gross margin	\$197,890	\$217,200	\$235,700
Gross margin %	43%	43%	43%

[Comments](#)

Budget

	2019	2020	2021
Operating expenses			
Salaries and Wages	\$94,100	\$102,560	\$104,829
Employee Related Expenses	\$23,525	\$25,640	\$26,207
Marketing	\$21,000	\$0	\$0
Leased Equipment	\$1,650	\$1,800	\$1,800
Rent	\$27,500	\$54,000	\$54,000
Utilities	\$1,375	\$1,500	\$1,500
Insurance	\$825	\$4,500	\$4,725
Amortization of other current ...	\$0	\$0	\$0
Total operating expenses	\$169,975	\$190,000	\$193,061

Expenses by Month



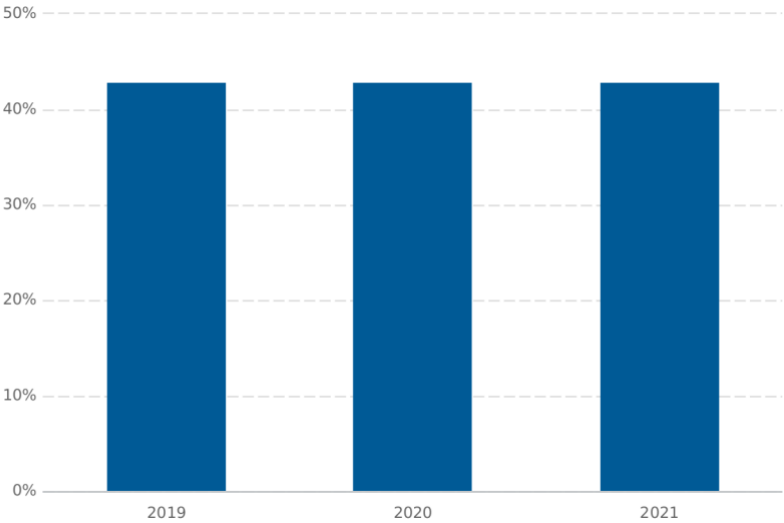
Personnel Plan

	2019	2020	2021
Garrett McKenzie	\$32,000	\$32,000	\$32,000
Terry Ray	\$23,400	\$24,570	\$25,799
Leslie Kape	\$19,800	\$20,790	\$21,830
Part-time Employees	\$18,900	\$25,200	\$25,200
Totals	\$94,100	\$102,560	\$104,829

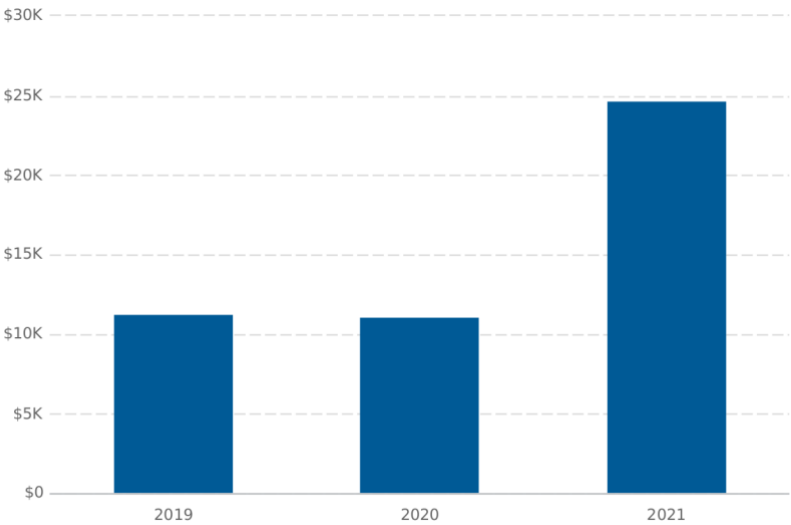
Projected Profit and Loss

	2019	2020	2021
Revenue	\$465,530	\$510,000	\$551,500
Direct Costs	\$267,640	\$292,800	\$315,800
Gross Margin	\$197,890	\$217,200	\$235,700
Gross Margin %	43%	43%	43%
Operating Expenses			
Salaries & Wages	\$94,100	\$102,560	\$104,829
Employee Related Expenses	\$23,525	\$25,640	\$26,207
Marketing	\$21,000	\$0	\$0
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Rent	\$27,500	\$54,000	\$54,000
Utilities	\$1,375	\$1,500	\$1,500
Insurance	\$825	\$4,500	\$4,725
Amortization of Other Current...	\$0	\$0	\$0
Total Operating Expenses	\$169,975	\$190,000	\$193,061
Operating Income	\$27,915	\$27,200	\$42,639
Interest Incurred	\$2,297	\$1,779	\$1,299
Depreciation and Amortization	\$12,300	\$12,300	\$12,300
Income Taxes	\$1,998	\$1,968	\$4,356
Total Expenses	\$454,210	\$498,847	\$526,815
Net Profit	\$11,320	\$11,153	\$24,685
Net Profit/Sales	2%	2%	4%

Gross Margin by Year

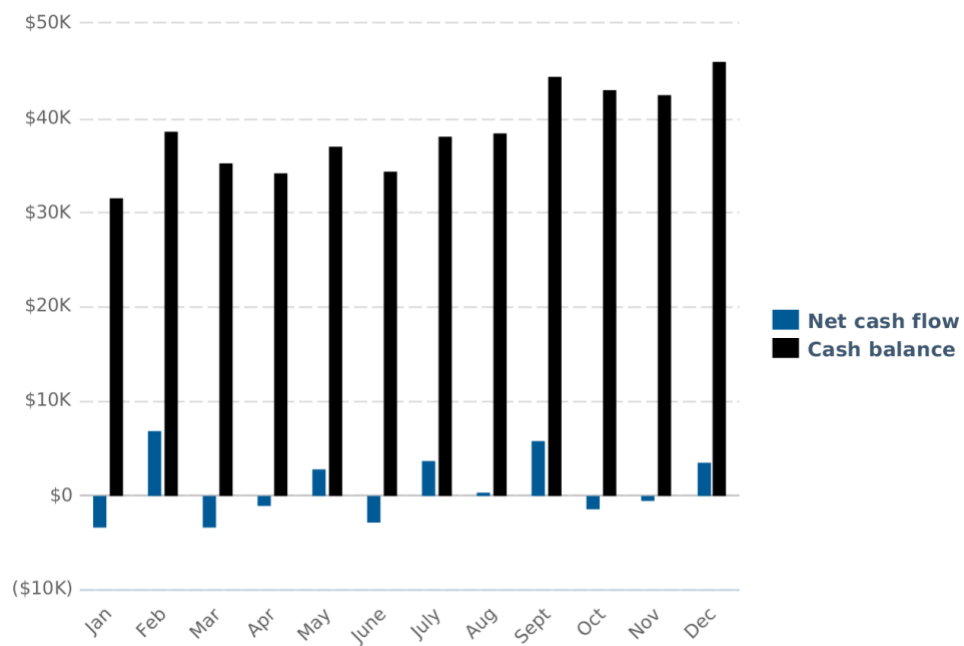


Net Profit (or Loss) by Year



Cash Flow Assumptions

Cash inflow	
% of Sales on Credit	10%
Avg Collection Period (Days)	90
Cash outflow	
% of Purchases on Credit	100%
Avg Payment Delay (days)	45
Months to keep on hand	1
Minimum inventory purchase	\$1,000



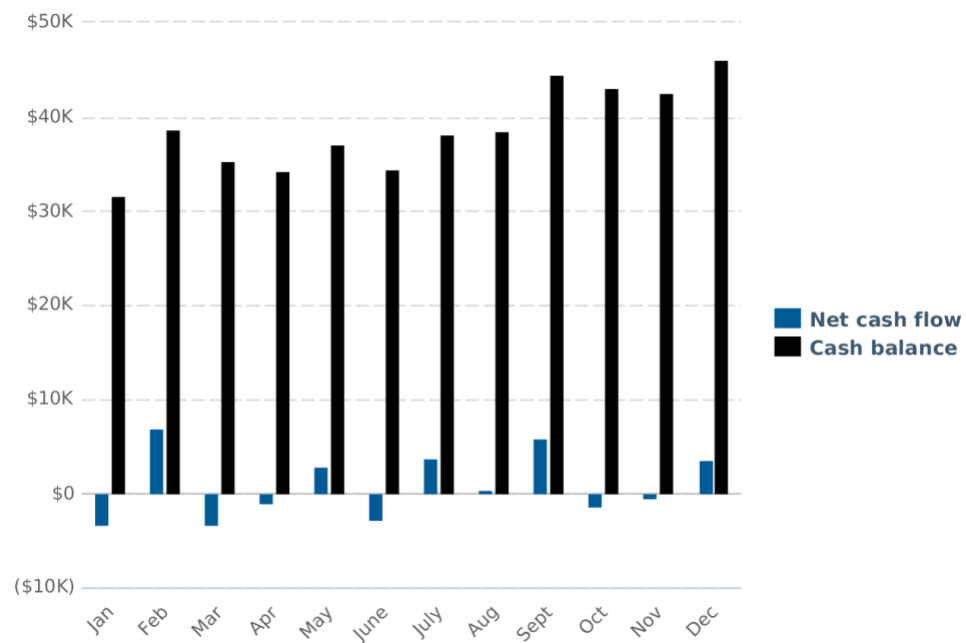
Projected Balance Sheet

	Starting Balances	2019	2020
Cash	\$35,000	\$46,202	\$60,043
Accounts Receivable		\$12,304	\$12,750
Inventory	\$17,000	\$24,400	\$26,318
Other Current Assets	\$8,000	\$8,000	\$8,000
Total Current Assets	\$60,000	\$90,906	\$107,111
Long-Term Assets	\$61,500	\$61,500	\$61,500
Accumulated Depreciation		(\$12,300)	(\$24,600)
Total Long-Term Assets	\$61,500	\$49,200	\$36,900
Total Assets	\$121,500	\$140,106	\$144,011
Accounts Payable	\$17,650	\$38,967	\$46,243
Income Taxes Payable		\$1,998	\$1,968
Sales Taxes Payable			
Short-Term Debt	\$16,030	\$14,493	\$14,973
Prepaid Revenue			
Total Current Liabilities	\$33,680	\$55,459	\$63,184
Long-Term Debt	\$65,970	\$51,477	\$36,504
Total Liabilities	\$99,650	\$106,936	\$99,688
Paid-In Capital	\$25,000	\$25,000	\$25,000
Retained Earnings	(\$3,150)	(\$3,150)	\$8,170
Earnings		\$11,320	\$11,153
Total Owner's Equity	\$21,850	\$33,170	\$44,323
Total Liabilities & Equity	\$121,500	\$140,106	\$144,011

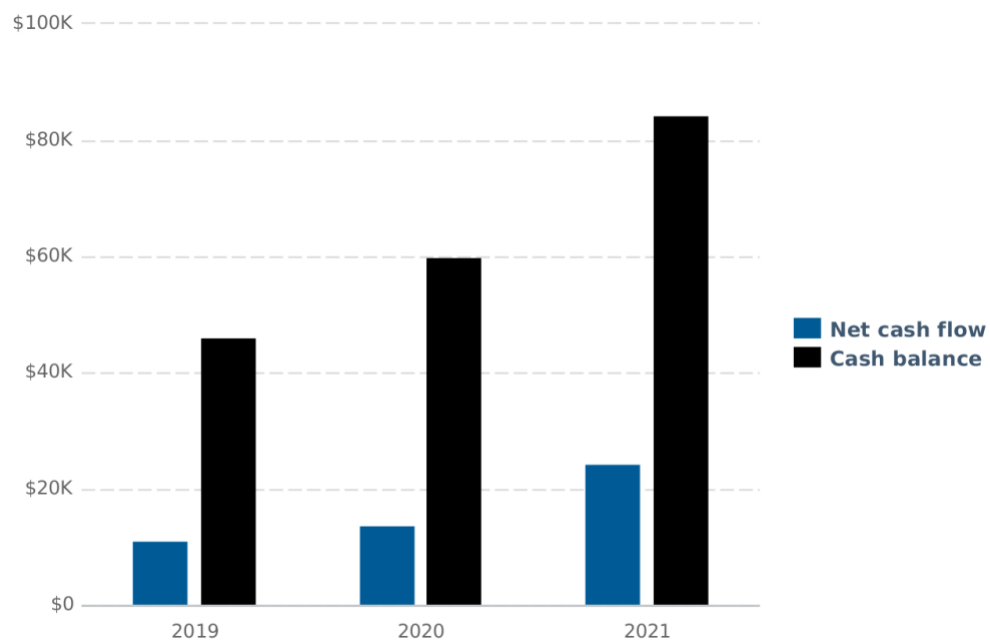
Projected Cash Flow

	2019	2020	2021
Net Cash Flow from Operati...			
Net Profit	\$11,320	\$11,153	\$24,685
Depreciation & Amortization	\$12,300	\$12,300	\$12,300
Change in Accounts Receivable	(\$12,304)	(\$446)	(\$1,038)
Change in Inventory	(\$7,400)	(\$1,918)	\$0
Change in Accounts Payable	\$21,317	\$7,276	\$987
Change in Income Tax Payable	\$1,998	(\$30)	\$2,388
Change in Sales Tax Payable			
Change in Prepaid Revenue			
Net Cash Flow from Operati...	\$27,232	\$28,335	\$39,322
Investing & Financing			
Assets Purchased or Sold	\$0		
Investments Received			
Change in Long-Term Debt	(\$14,493)	(\$14,973)	(\$15,471)
Change in Short-Term Debt	(\$1,536)	\$480	\$497
Dividends & Distributions			
Net Cash Flow from Investin...	(\$16,030)	(\$14,493)	(\$14,973)
Cash at Beginning of Period	\$35,000	\$46,202	\$60,043
Net Change in Cash	\$11,202	\$13,841	\$24,348
Cash at End of Period	\$46,202	\$60,043	\$84,392

Cash Flow by Month



Cash Flow by Year



Note: The real plan follows with monthly projections in separate appendices. These are not included with this sample plan.