

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

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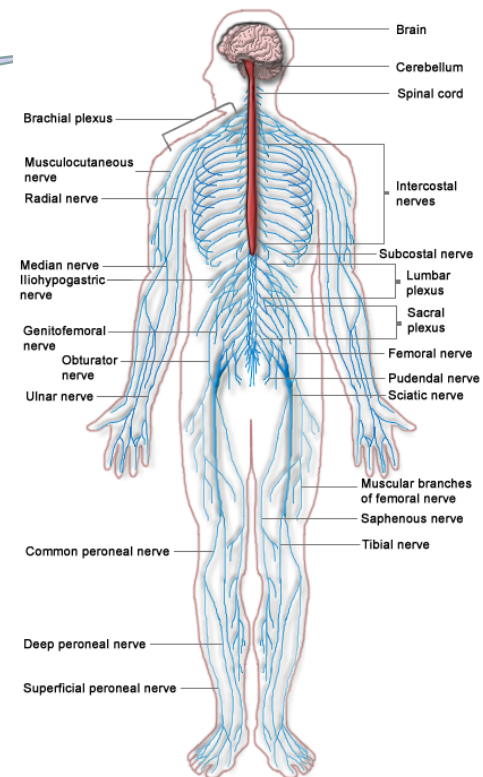
# Assumptions are the nervous system of a plan

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

ALL of your plans will be based on assumptions:

- Business
- Marketing
- Operations
- Sales
- Finance










**The goal is to make those assumptions explicit**



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

## The Business Model Canvas

Name: \_\_\_\_\_ Date: \_\_\_\_\_

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

# From the BMC, we have to create plans

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

But let's back up

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

Could be wrong  
Don't want to find out they're wrong  
Insecurity  
Putting science first – not comfortable with business topics

# So why should we?

## Assumptions can play three roles in a plan

- Transformational
- Forensic
- Instill confidence

# Assumptions transform an opportunity into an investment

Opportunities are open-ended

Investments have a quantified risk  
& reward



# Assumptions have a forensic value

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

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



Assumptions help you avoid this



# Assumptions instill confidence in an entrepreneur

*Transform your conversations with investors, customers, vendor, employees*



From this

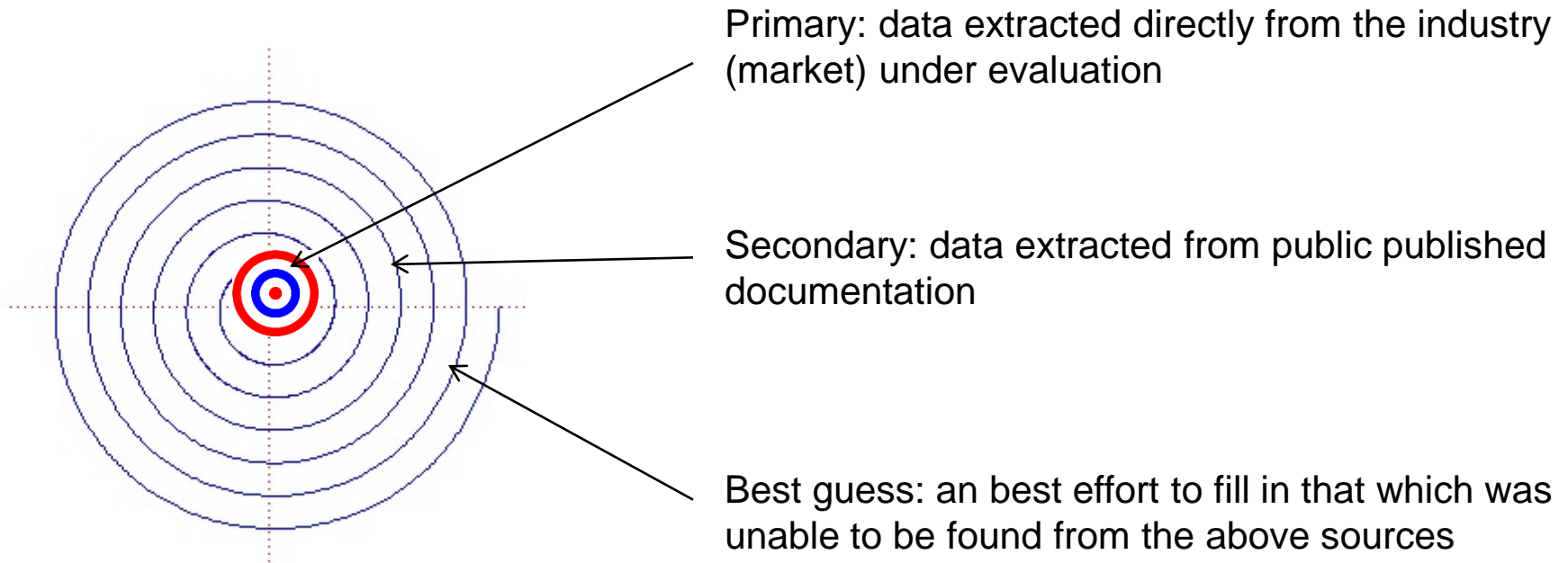


To this

1  
0

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

## *There are three levels of assumption data*



## ...and then continue to refine the assumptions

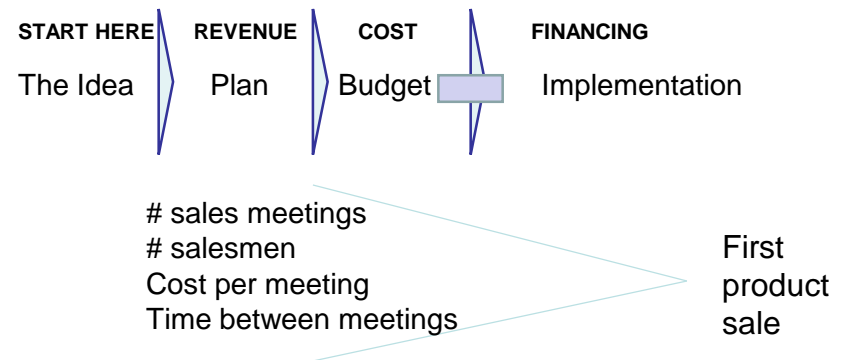
# 1

## Methods for developing assumptions are stylistic

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

# And there are many ways to approach and structure assumptions

- I. Components of a (financial) plan
  - I. Revenue, cost, etc.
- II. Work backward from an event
  - I. Such as a sale
- III. By revenue stream



## Income Statement

	Prior 5 Quarter Results					Prior Annual Results			
	Q3FY06	Q4FY06	Q1FY07	Q2FY07	Q3FY07	FY06	FY06	FY07	FY08
Revenue	15,446	15,889	16,077	16,434	15,162	49,121	55,788	57,419	61,133
Percentage of Net Revenue:									
Gross margin	18.8%	18.6%	18.4%	17.2%	18.8%	18.4%	17.7%	18.6%	18.1%
Total operating expenses	13.2%	13.8%	12.8%	12.8%	12.1%	8.8%	8.8%	11.2%	13.8%
Operating income	5.3%	4.9%	5.5%	5.0%	6.7%	8.8%	7.9%	5.4%	5.6%
Net income	4.8%	4.2%	4.8%	3.7%	4.8%	6.1%	6.3%	4.6%	4.6%
Income tax rate	18.2%	23.0%	23.5%	26.4%	28.9%	31.3%	21.8%	22.8%	23.9%
EPS (Diluted)	\$ 0.34	\$ 0.31	\$ 0.38	\$ 0.31	\$ 0.37	\$ 1.18	\$ 1.47	\$ 1.14	\$ 1.21
WAS (Diluted)	2,266	2,201	2,040	1,999	1,897	2,068	2,449	2,271	2,247
Regular headcount	61,800	62,700	79,800	79,300	77,700	55,200	65,200	83,100	82,700
Temporary contractors	7,100	5,500	4,700	3,800	3,100	2,200	2,200	3,500	3,500
Total	68,900	68,200	84,500	83,100	80,800		72,400	86,600	86,200
Average total revenue per unit	\$ 1,500	\$ 1,480	\$ 1,470	\$ 1,420	\$ 1,440	\$ 1,560	\$ 1,500	\$ 1,510	\$ 1,540

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

Dell Investor Relations



# Components of a financial plan

## START HERE

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

### ASSUMPTIONS

## REVENUE

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

### ASSUMPTIONS

## COST

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

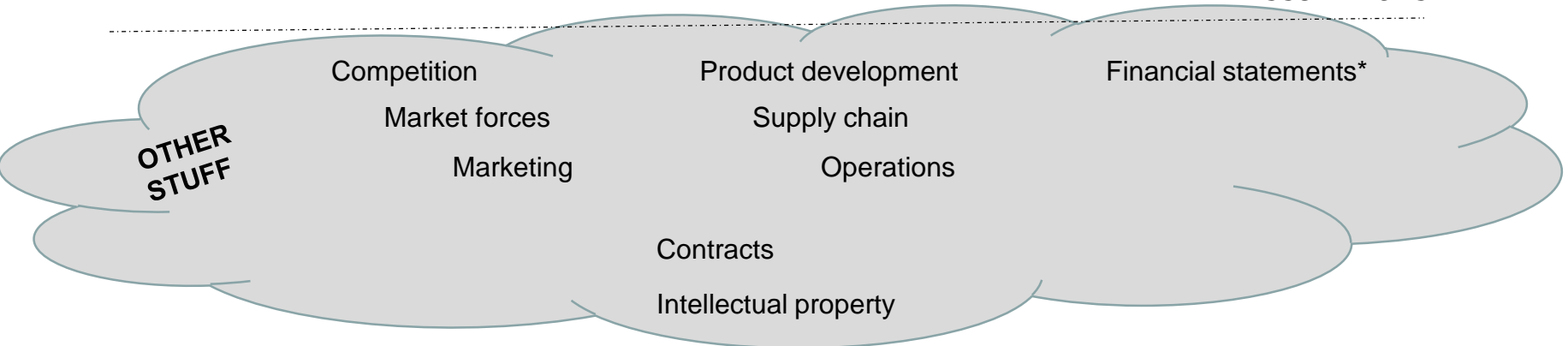
### ASSUMPTIONS

Cash table

## FINANCING

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

### ASSUMPTIONS



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

# I. Components of a Financial Plan

Start here - assumptions

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

# I. Components of a financial plan

## Revenue- assumptions

- Price
- Margins
- Sales cycle
- Pipeline

# I. Components of a Financial Plan

## Costs - assumptions

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



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

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

### III. By revenue stream

- Direct sales
- Distributed
- Products
- Services
- Licensed

# Assumptions make your plan rigorous and defensible

## Assumptions:

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