

Right Sizing the Start-up Business Plan

Just about every start-up begins with one plan but ends with a different one. Circumstances can cause even the best laid plans to change. It makes one wonder: Why is so much importance placed on writing a business plan and how well-planned does a start-up really need to be?

Fortunately Seattle is ripe with serial entrepreneurs who've had a chance to learn some start-up best practices. At a recent Northwest Entrepreneur meeting, serial entrepreneurs Todd Humphrey (Cleverset) and Jordan Mitchell (Others Online) shared their experiences. Each provided advice for building a realistic start-up road map.

Avoid Over Planning

Planning a business is important, but entrepreneurs often spend too much time planning a business when conditions aren't really predictable. For example, before the launch of Cleverset, Todd Humphrey spent many long days and nights that turned into months of work. He thoughtfully prepared a highly-detailed, well-thought out, 50-page business plan. Although the process was helpful in thinking through the business, ultimately it was overkill. Market conditions changed the business before the plan could be executed. The months of planning yielded what amounted to a reference document.

Jordan Mitchell had a similar story. When launching Others Online he prepared and executed against not one, not two, but ultimately three different business plans. In his case, market conditions and a staffing issue derailed earlier plans. He had to rapidly adapt his plan or he wouldn't have had a viable business.

If putting the time and energy into designing a comprehensive business plan and executing against it doesn't work for some of the best and brightest entrepreneurs, what's the right approach?

Mitchell and Humphrey both agree that planning should be thoughtful, but more energy should be reserved for getting the

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product to market. If Humphrey had a do-over he would have kept his plan to about 8-pages. He also advises that planning begin with a keen understanding and realistic views of the valuation and exit. For example, choosing to conservatively value the company at \$10-20 million vs. \$100 million (like some competitors), changed the level of investment needed. Ultimately this enabled a successful exit that matched up with expectations in the original business plan.

Mitchell, who likes to work out business planning in spreadsheets, advises laying out key pieces of the revenue model in a spreadsheet to understand inter-relationships. Afterwards it's critical to validate revenue model assumptions in the market. With both approaches the key is to have a vision for where you want to go, and to build a flexible plan while staying open-minded to change.

Plan Market Savvy Pivots

One critical element to successful start-up planning is anticipating change. Business conditions constantly evolve and dependent on how drastic the change is, may require a major pivot in the business model. Being responsive to

change requires a keen sense of what's going on in the market.

Mitchell's formula for determining when to pivot the business is a 60-40 mix, with 60% based on market intuition. Being tuned into the market comes from talking to customers, partners and observing competitors. The other 40% involves playing 'what if' scenarios with the core pieces of the business model in the spread sheet. Using this approach a business can integrate a highly-honed gut feel for the market with the financial impact of intelligent guesses about how the company might respond.

Similarly Humphrey advises staying close to the market to understand the impact of changing conditions. However, once it becomes a clear that a pivot is needed, figuring out when, where and how to pivot really boils down to three simple questions: How much money is in the bank? How much is the company spending? And, how much revenue is coming in?

Planning is part of business and it's critical to the success of any company. However, one secret to success is to keep planning fluid so that you can quickly pivot and respond to market or business changes. Over-planning isn't necessary. It can slow a business down and keep an entrepreneur too invested in what should have been vs. what is.

These "Executive Insights" are based on monthly presentations provided by leading entrepreneurs at the Northwest Entrepreneur Network (NWEN.org), a non-profit organization dedicated to helping entrepreneurs succeed. The column is written by Cheryl Isen, founder of Isen & Company, a strategic marketing and public relations firm that helps

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