Getting to Plan B: Breaking through to a better business model

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OFF THE SHELF

Getting to Plan B: Breaking Through to a Better Business Model

By John Mullins and Randy Komisar. Boston: Harvard Business Press, 2009

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The first time Max Levchin tried to start a firm in encryption technology, he conceived of a company offering security for handheld devices. Like many entrepreneurs he pursued his plan with enthusiasm and high aspirations, yet the hoped-for customer demand did not materialize. Levchin's Plan B—selling cryptography software—experienced a similar fate, as did subsequent Plans C through F, which also failed to attract any meaningful customer demand. It was only the seventh incarnation, his Plan G, that gave Levchin the breakthrough opportunity: He had carefully observed that one of his ancillary products, the web demo for his payment encryption technology, was increasingly used by eBay buyers to safely transfer cash to sellers—a key discovery that Levchin quickly turned into the online payment service he dubbed PayPal and eventually sold to eBay for $1.5 billion.

Authors John Mullins and Randy Komisar use the PayPal example to drive home the main thesis of *Getting to Plan B*: that more often than not start-ups fail to make money from the original business plan and that entrepreneurs need to develop a mindset of experimentation, learning, and adaptation in order to raise their odds for start-up success. With Mullins working as a professor at the London Business School and Komisar as a partner at Silicon Valley venture capital firm Kleiner Perkins Caufield & Byers, the duo leverage academic and practical experience in their writing. Although this is their first collaboration, they are not novices when it comes to publishing: Mullins authored a number of academic studies on entrepreneurial decision making and wrote *The New Business Road Test*, a highly practical book that shows entrepreneurs how they can judge the quality of venture ideas. Komisar authored *The Monk and the Riddle*, a business book advocating that entrepreneurs should start only those firms they have genuine passion for. Thus, while *Getting to Plan B* mainly extends Mullins' work on evaluating and planning new businesses, the book strongly benefits from the collaboration between an academic and a practitioner, as it is able to offer a very lively, hands-on (yet not shallow!) discussion of the role of planning in new firm creation.

Getting to Plan B immediately caught my attention as it presents an important antidote to the culture that has grown up around the business plan in start-ups: Business plans are extremely common in new firm creation, partly because founders believe in their value, partly because founders are made to write a business plan to respond to institutional pressures and attract external financing (Gruber, 2007; Karlsson & Honig, 2009). For instance, Gumpert (2002) estimated that on a global scale as many as 10 million business plans are written each year. Yet, in spite of the widespread belief in the benefits that can be derived from business planning, there is little empirical evidence indicating that founders who write a business plan actually create more successful firms. One group of researchers views business planning as an important activity for successful firm creation, as it supports the entrepreneur's decision making in a number of ways (e.g., Shane & Delmar, 2004). Other researchers, however, challenge this assertion quite strongly, as they believe that planning can lead to cognitive rigidities and that the time devoted to planning could be more usefully spent on building the new organization and establishing customer relationships (e.g., Bhidé, 2000). A recent meta-analysis of business planning research conducted by Brinckmann, Grichnik, and Kapsa (2010) indicated that the relationship between business planning and performance tends to be positive, yet contextual factors affect the nature of the relationship. These authors concluded that a more dynamic approach to planning, combining planning *and* learning, is required.

By emphasizing the importance of "business discovering" and deemphasizing "business planning," *Getting to Plan B* fits well with this call from the research community. Yet the book also builds on an emerging theme in the practice-oriented literature that is perhaps most evident in McGrath and MacMillan's (2000) concept of "discovery-driven planning" and that resonates well with Drucker's (1985, p. 185) poignant observation that if "a new venture does succeed, more often than not it is in a market other than the one it was originally intended to serve, with products and services not quite those with which it had set out, bought in large part by customers it did not even think of when it started, and used for a host of purposes besides the ones for which the products were first designed."

Getting to Plan B is a highly welcome addition to this still underdeveloped line of thinking. The main contribution of this book is an innovative, high-level process framework that shows how founders can test core assumptions and improve their business plans until they find one that works. Following the basic premise that a founder's Plan A is at least partially wrong, the key findings of the book are captured in three concepts that support nascent entrepreneurs in guiding their business experiments, tracking their results, and finding superior solutions.

First, Mullins and Komisar argue that when planning their business, founders should avoid falling into the common trap of being too inwardly focused and, thus, reinventing the wheel when it comes to business model design. To get a head start in learning about their new firm, founders should instead study predecessor firms, mimic their successful features, and avoid those elements that turned out to be unsuccessful (i.e., identifying "analogs and antilogs"). Although this idea reminds the reader of the benchmarking concept (Camp, 2006), there is added value in Mullins and Komisar's crisp depiction, as it forces founders to contemplate not only the best practices of other firms but also to examine what one could call "worst practices." Moreover, it prevents founders from thinking that their business idea is so novel that they cannot learn from other companies, and this realization alone is of great value.

Second, as business plans for innovative companies tend to be full of untested assumptions, the authors urge founders to clearly identify those core "leaps of faith" that the business rests upon. As the PayPal example suggests, these leaps of faith often pertain to market-related factors such as customer buying behavior and the overall level of demand for a particular offering. I see this idea as an important addition to the business planning literature, as more often than not entrepreneurs find themselves caught up in the planning process and tend to lose track of what are the facts and what are the assumptions in their planning. Again, the crispness with which the authors present this idea should be of substantial value to founders. Their "leaps of faith" concept drives home the point that identifying and keeping track of core assumptions is key, as it allows founders to ask the right questions and learn about their business. In addition, there is an important psychological effect: Being constantly aware that there are major assumptions in their planning, founders will be more likely to revise their original plan should new information become available.

The third and final step of the process is designed to support fast learning about the plan's core assumptions via inexpensive, data-driven experiments. For this purpose, Mullins and Komisar provide a specific tool (the so-called "dashboard") that gives founders a structure for testing hypotheses about the economic viability of the business model (in terms of the venture's revenue model, gross margin model, operating model, working capital model, and investment model) and for using the newly acquired evidence to improve its design. I particularly like this new tool, as it stitches together fundamental elements of the business model in a practical manner and thus helps founders develop an integrative understanding of how their business functions.

To illustrate and motivate their process framework, the authors provide more than 20 intriguing examples of entrepreneurs from around the world—success stories and cautionary tales from little-known start-ups to some of the most successful ventures of recent times, including fashion retailers Zara from Spain and Pantaloon from India, Google and Starbucks from the United States, and organizations such as the African Leadership Academy, whose mission is to develop effective and ethical leaders in Africa. These cases have in common that the founders went through several plans before hitting on one that could generate the expected results. I find it quite appealing that these cases cover a wide range of businesses and geographic regions, as this allows Mullins and Komisar to illustrate the applicability of their framework in very different settings.

While there is much to like about this book, there are also several parts that deserve further attention in future editions. In particular, given the importance of experiments for a founder's learning experience and his ability to improve the original plan, entrepreneurs would benefit from having specific guidelines for designing and conducting business experiments. In this vein, it would be highly useful to have an overview of the types of experiments applicable in new firm creation as well as their distinct features (such as time and resources required, pros and cons of these experiments, etc.), as there does not seem to be a text yet that covers this type of content. For instance, many entrepreneurs are likely to be interested in learning how the Internet can best be used to run fast and inexpensive experiments—such as setting up a Web site to examine customer demand at different price points or to learn about the appeal of different types of offerings (e.g., product vs. service offering). In the offline world founders may experiment with different product offerings for different geographic regions, or may run different advertising campaigns to find out which one has the most appeal to customers.

Similarly, future editions of the book could provide more detailed insights into how entrepreneurs can find and choose appropriate analogs and antilogs in the design of business models. As explained, the identification of analogs and antilogs can help founders understand which features of business models have worked well at other companies and which ones have failed, thereby giving them the chance to learn from best practices and to avoid mistakes. Yet the identification of analogs and antilogs is a fairly challenging task, as the most valuable learning cases may be found outside traditional industry boundaries and thus are much harder to detect. In addition, the true outcomes associated with particular business model features may not be easily observable for founders, given that whole configurational solutions may be the cause of favorable performance outcomes at other companies, and not just single features of their business model (Zott & Amit, 2007).

Finally, I am somewhat at odds with the book's claim that founders should not develop a contingency plan right at the beginning but should devote all their enthusiasm to the original plan. Specifically, it seems that founders will not only miss a key learning opportunity (in the sense of identifying and tracking real options for venture development), but may also waste scarce funds, energy, and time if they embark on an entrepreneurial journey that with a little up-front research could have been steered in a more promising direction. Related to this issue, my own research on technology ventures shows that those founders who, prior to the first entry, identified multiple market opportunities for commercializing their technological resources significantly outperformed those who identified only a single opportunity, and thus a single course of action (Gruber, MacMillan, & Thompson, 2008). Founders thus seem likely to benefit from adopting a broader perspective on venture development options right from the start and, only after obtaining further insights through early research, decide to pursue a particular option.

These critiques notwithstanding, *Getting to Plan B* is a highly enjoyable and useful read. The book reinforces the fact that the journey from the initial business idea to a successfully operating firm is fraught with uncertainty, and that planning under such conditions needs to be conducted in a way that allows founders to learn continuously.

Even if this may seem like a truism to some, the paradigmatic status of business planning in everyday venture practice, its widespread adoption in entrepreneurship curricula around the world, and the ongoing debate among researchers on the value of business planning make this book an insightful source for entrepreneurs, teachers, and researchers alike.

For entrepreneurs, perhaps the book's most important message is the need to adopt a mindset of experimentation—it is not about (stubbornly) thinking that one has a brilliant business idea and trying to figure out how this particular idea can be made successful, but about acknowledging uncertainty and embracing the need to adapt the initial idea until it works out. This message is also a key one to send out to the business school community, especially since Honig (2004) showed that 78 of the top 100 universities in the United States offer courses on business planning, and many schools around the world do the same. To date, however, entrepreneurship curricula usually (over-)emphasize the importance of the business plan as a document while offering fewer insights on the learning process that should accompany new firm creation. And here the process framework, examples, and tools provided by Mullins and Komisar come in handy, as they can readily be applied in teaching. For instance, in my own entrepreneurship class I ask students not only to improve their original plan by identifying analogs and antilogs, but to run real experiments (mainly by engaging with different sorts of customers) so that they can test their core assumptions.

Finally, from a research perspective I found the manifold real entrepreneurial stories and ideas presented in this book to be very inspiring, as they highlight notions of flexibility and experimentation in planning that are only just emerging in studies examining the planning–performance relationship in new ventures (Brinckmann et al., 2010; Dencker, Gruber, & Shah, 2009). It thus seems that research on business planning could benefit greatly by adopting a longitudinal perspective, as only such research is able to truly uncover the development and fate of business plans over time (for a rare example of such research see Karlsson & Honig, 2009).

In sum, I have no doubt that *Getting to Plan B* can be recommended to anyone interested in acquiring a grounded and conceptually appealing depiction of the realities of modern start-up life. And if one asks me, dealing with the uncertainty inherent in the venturing process, and using that uncertainty to one's advantage, are important factors contributing to the charm of starting a new venture.

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