

DISCIPLINE ABOUT ASSUMPTIONS

by Allan Gray

When it comes to making strategic decisions, most failures are rooted in a set of dangerous assumptions, say **Rita Gunther McGrath** and **Ian C. MacMillan** in their *Harvard Business Review* article, "Discovery Driven Planning."

For starters, it is risky to assume customers will buy a product or service because the seller thinks it's good or because it is technically superior. You also can't assume that customers will agree with your perception that the offering is great or that customers run no risk in buying from you instead of their past suppliers.

Other dangerous assumptions include:

1. The product or service will practically sell itself.
2. Distributors are desperate to stock and service the product.
3. We can develop the product or service on time and on budget.
4. We will have no trouble attracting the right staff.
5. Competitors will respond rationally.
6. We can insulate our product from the competition.
7. We will be able to hold down prices while gaining share rapidly.
8. The rest of our company will gladly support our strategy and provide help as needed.

Sound familiar?

McGrath and MacMillan's insights into dealing with companies that struggled with these assumptions led them to develop the four-step discipline they call "Discovery Driven Planning." The four disciplines are:

1. A reverse income statement.
2. A pro-forma operations specification.
3. A written inventory of assumptions.
4. A plan to test assumptions at critical milestones.

REVERSE INCOME STATEMENT

The concept of the reverse income statement is simply starting with the end in mind. What are you trying to accomplish with the new product or service? How much value do you need to capture to make it worthwhile? If you know how much profit you want to create and you can make assumptions about the margins you can generate, you can start to get an estimate of the sales needed to get to your profit goals. You can make assumptions about pricing in the marketplace and the resulting volumes needed to generate sales. This simple process can give a quick feel for whether your idea has any merit.

CONSTRUCT PRO-FORMA OPERATIONS SPECIFICATIONS

This discipline asks you to create a clear and comprehensive list of all of the activities required to produce, sell, service and deliver the product or service to the customer. Along with the list of activities, you want to write down assumptions about performance expectations for each activity in terms of time, cost and additional resources.

INVENTORY THE UNDERLYING ASSUMPTIONS

Through the processes of developing the reverse income statement and the pro-forma operations expectations, you have to make a litany of assumptions. McGrath and MacMillan's third

discipline asks you to critically examine your reverse income statement and operations specifications for all of the underlying assumptions you had to make to create those pieces of information and document them in an assumptions list. This list will be an essential part of the information that all decision-makers will need to see and discuss to be sure it is complete and all agree on the assumptions.

TEST ASSUMPTIONS AT CRITICAL MILESTONES

The list of assumptions becomes the key to helping manage a new product or service in incremental investments that allow you to either continue into the investment or get out before it costs too much money. At this stage of the decision process, you want to identify key milestones in the development process. Then, you must be disciplined to pause at those milestones and check your underlying assumptions to see what has changed, and how those changes impact your operating assumptions and expected financial performance.

STRATEGIC DECISION MAKING

Purdue University's Center for Food and Agricultural Business and the **Agricultural Retailers Association** will offer the an in-depth look at discipline in decision making at the Strategic Decision Making program, June 13-15 on Purdue's West Lafayette, IN, campus. The program helps participants make better critical business decisions, such as new product strategies, investment opportunities, research and development initiatives and more. Learn more at <http://agribusiness.purdue.edu/SDM-2017>. **AM**

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