The 12-Month growth plan

How to kickstart your business using examples from Dragons' Den

Cranfield University

Galayev & Co.

Boodle Hatfield.

The 12-month growth plan

1. Introduction

The 12-month growth plan is an essential tool for start-ups that are looking to grow, not because it will provide them with a strict path to follow, but because it will force them to understand their market, their customers and their own business.

The first mistake to avoid when doing such a long-term plan is to overestimate the growth. While it is very appealing to believe the start-up will grow 1000% y-o-y, it is rather unlikely. Forecasts can also be very precise, calculated to the very penny. However, they are unlikely to be reliable, and will evolve as the business lives its life. It is necessary for the plan to be realistic and adaptable.

Insight:

The rule of thumb we apply when working on a due diligence project for a client is as follows:

Double the cost base and divide the revenue projections by four. Provide us with realistic projections and you're already ahead of the game.

2. Marketing

The marketing plan is the backbone of the growth plan, and has to be based upon a solid market research. Ideally, the market research should list:

- The size of the market
- Who the clients are, their profiles and their needs
- The number of competitors, their USP
- The risks
- The barriers to entry

We can use this analysis to create a complete strategy, looking especially at the following points:

a. Route to Market

- The type of product; customers, their habits and their needs will determine the route to market.
- Is the product perishable, is it ok with transportation?
- Are customers they tech-, online-savvy, or prefer to shop in a brick-and-mortar store?
- Focusing on the optimal distribution channels ensures little time or money wasted on non-effective marketing.

b. Scalability/Depth of Route to Market/Channel

The channels must be able to sustain the target growth rate. The partners must be adapted in size and capability to what the firm can currently deliver up to our more mature stage.

If a channel is at risk of becoming a bottleneck, it can seriously harm the growth plan.

Insight:

What is the total depth of the channel?
Sometimes it is just impossible to sell as much ice cream online as at Tesco's nationwide.

Also, how big is the total market?
Following our ice cream example. If you are selling a coconut/dairy-free/organic ice cream for £4 a tub, do not expect a person who buys a 50.p Tesco value cold juice ice cream to buy your product. Hence saying that the total market size of Ice cream in the UK is £4B doesn't help you but only distracts. You market is: A/B earner, who is lactose intolerant, health-cautious person, which makes your total market probably £40M. so the final question, how much of that market can you grab realistically over the next five years? if you are Coca-Cola, probably 30% if you are a small start-up, if you achieve 10%, this is a stellar performance.

a. Marketing Channels

The previous remarks are also relevant for Marketing Channels. They must be carefully tailored to the target customers, suitable for the product, with the USP clearly identified.

Insight:

Always check the volume of keywords on Google/Bing etc. for your product/service. For example: If you forecast to sell 100 units per month of your product/service online and only two customers per month are actually searching for it, then you probably need to adjust your forecast down. It is unlikely that you will growth the market substantially all by yourself and convert 100% of that traffic. Best case would be around 1-4%

3. Operations

Once the route to market is identified and the marketing plan is laid down, we have to look at the operation side of the business.

a. Scalability of production

The supply needs to be sufficient to suffice the increased demand. Would it be a web-based platform, where the bandwidth needs to be sufficient, or a complex product with a long production time. It is important to stress test the production line, and ensure that this part of the supply chain will support the growth of the company.

If the production line cannot support the full growth, it is important to look at alternatives, such as new partners or new production methods, especially as it takes time and will be difficult to do during the growth process itself. Short-term solution could be outsourcing to partners that are geared-up to deal with high volume.

b. Scalability of Distribution

The same principle applies to the distribution. The platform and/or partners must be able to provide the best services now as well as post-growth. If not, other partners must be considered. Similarly, to the production, changing partners during the growth process is difficult, lengthy and should be avoided.

Insight:

We monitored multiple companies from Dragons Den:

Sometimes the website crashed due to the sudden 20—30 times increase in traffic.
Other times, our supply chain wasn't geared up to deal with the jump in sales and we had to apologise to our customers and extend the delivery time from 1 day to two weeks. How would you feel as a consumer?

4. KPIs

Every start-up is different, however some KPIs are common. Keeping an eye on them will provide valuable information on the company's health.

a. Managing cash flow, knowing the cash burn rate

A company cannot operate without cash. It is then essential to know how much cash we currently have in the bank, and how much cash we are spending every month to run the company. Knowing these two variables allow to prepare fund raising rounds in advance, and to keep the company running.

Hint: it takes from 6-12 month to raise an equity round. And this if everything is ship shape

Cash is King, especially in period of growth. The stock orders are increasingly bigger, and hence more expensive, the team has to grow in size, and more money has to be spent in acquiring new customers. This is pricey and has a negative impact on the cash flow, as there can be months before we see an impact on the income. If you are on 60-90 days payment with your customers, you are guaranteed to hit a cash flow gap very soon.

Hint:

Try to invoice discount your orders as soon as possible. There are financial providers that cater for young ventures.
Negotiate hard on the payment terms. Most of large institutions have special arrangements for small suppliers, where they pay within 7-10 days even. Just ask.
Don't forget that 70% of businesses fail because of cashflow issues.

Insight:

We had cases, where we had to bailout start-ups with a short-term loan. For example, we needed to source £20K to pay a release deposit for the goods going from China to USA buyers.

If we were to miss the deadline for delivery we would be penalised, and that would eat all of our margins away. Without the £20K Chinese manufacturer would not release the goods! Complete deadlock. Only because founders had a good relationship with the angel investors, we could provide them with a line of credit overnight.
Be nice to your shareholders.

b. Profitability and finance

Start-ups take time to become profitable, sometimes years. It is important to know where the profitability will come from.

The first profitability index is the **Gross Margin**. The gross margin might evolve with time as better manufacturers are found, and economies of scale come to play. However, it is the baseline for the company's profitability. The Gross Margin must to cover the OPEX and Overheads and most importantly marketing costs at scale.

The Gross Margin of our firm isn't the only important GM to look at. If the product is sold through external agents such as distributors and retailers, it is important to think about their margins as well. You have to build enough margin to distributors and retailers in order to scale, if you don't have enough margin for distributors, then you can only sell directly to clients, which is not as scalable especially when it comes to export markets.

Insight:

We had companies in our portfolio that did not have enough margin for distribution model. As we scaled our sales via direct relationships with multiples, we had to hire more key account managers and salespeople. This is job of distributors, most of the time it is cheaper to give 25-30% GM to distributor than doing everything in-house.

c. Customer-based metrics

The growth must be sustainable, and the clients stay and spend enough with the company to make it profitable.

- **Cost of acquisition** (Considering the paid cost of acquisition -> total of customers gained over a period over the blend of all the expenditures done during that period): The cost of acquisition covers the money that the company must spend in order to gain one customer. There is no right value for the cost of acquisition, as it depends upon a large range of parameters. However, it must be reasonable when looking at the revenues per customer. Importantly, the cost of acquisition can be very high for the first sales, but should decrease quickly as the company hits bigger sales numbers with the same customer.

  Some of the money will also go to ensure repeat business, but it should be marginal compared to the acquisition of new customers.

Two related measures are the level of **referral** and **virality** (referral means how many new

customers are brought by existing customers, and virality is referral applied to social media, through shares and likes).

- **Churn** and **repeat customers**: The churn is the amount of customers that the start-up "looses" (usually measured by customers that don't repurchase after 90 days, but it depends upon the product sold). There will be a number of customers that will regularly re-purchase products from the range, generating a steady flow of revenues. This number should be as high as possible, as locking customers in is the best strategy to ensure revenues, without spending more on advertising. Understanding the factors of the business that influence the number of repeat customers is key.

- Using the churn, the cost of acquisition per customer and the average spend per purchase, we can estimate the **Lifetime value of a customer**. The lifetime value is the expected amount that the client will spend with the store, until it switches to a competitor or leaves the market.

This set of three values highlight how the customers see the company. The acquisition cost and churn should both decrease, while the lifetime value should increase, as the company grows and reaches their target customers. If the trend goes the other way, there might be a problem advertising, or improvements to be done with the product/service, and this might slow the growth of the company.

Hint: Our investors are looking start-ups where every customer is breaking even in 12month.

Other Hints:

Make sure you have cloud-bases accounting software that gives you a life feed of your P&L and Balance sheet.

Setup the layout of the P&L correctly. Use help of experts who understand start-ups. Big four will not be able to help you with the setup of management accounts, they are geared up to deal with FTSE100 they don't understand early ventures.

Use technology for everything that you can think of. Why? technology doesn't make mistakes and if setup correctly you can rely on the data. It is invaluable for early venture.

Make sure to surround yourselves with advisers/experts/consultants. Its all about the right people.

Don't forget the power of Three. All great ventures materialise when beneficiaries involved.

Most important: add value to clients, have fun while doing it and only then worry about the profit. Naturally, first two done right the third will follow.

Contact us

Galayev & Co

Stepan Galaev
Managing Partner

e: stepan@galayev.com
m: +44 (0) 7931 276255

Charles Serilas
Investment Associate

e: charles.serilas@galayev.com
m: +44 (0) 7957 082110

Boodle Hatfield

Richard Beavan
Partner

e: rbeavan@boodlehatfield.com
t: +44 (0) 20 7079 8181
m: +44 (0) 7504 520950

About Galayev&Co

Galayev&Co is the only family office for business angels in the UK, and we pride ourselves in the relationship we have with our investors, who include some of the Dragons from BBC Dragons' Den, and our founders. Our specialism lies especially in SEIS and EIS investment schemes, as it offers comfort both to the investors and the founders.

We offer added comfort to the investor thanks to a very strong due diligence process and a constant monitoring of the startup, while our extensive range of skills and expertise always prove useful to founders.

Galayev&Co.

59 Grosvenor Street
Mayfair, London, UK
W1K 3HZ

+44 7931 276255
info@galayev.com
www.galayev.com