khosla ventures

STANDARD OPERATING PROCEDURES

If/then Planning

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If/then planning

Overview

The goal of if/then scenario planning is to better understand how you can manage your company's spend and ensure capital efficiency in order to achieve success

Ask yourself what bad things could happen, and what would your countermeasures be?

Basic principles

- Keep the company alive long enough to get lucky
- Have a contingency plan for when your back is against the wall
- Identify and embrace the bare essentials
- Find creative ways to compel others to help fund the company or pay for development including, but not limited to, strategic partnerships
- It's better to have if-then planning in your back pocket while your outlook is positive

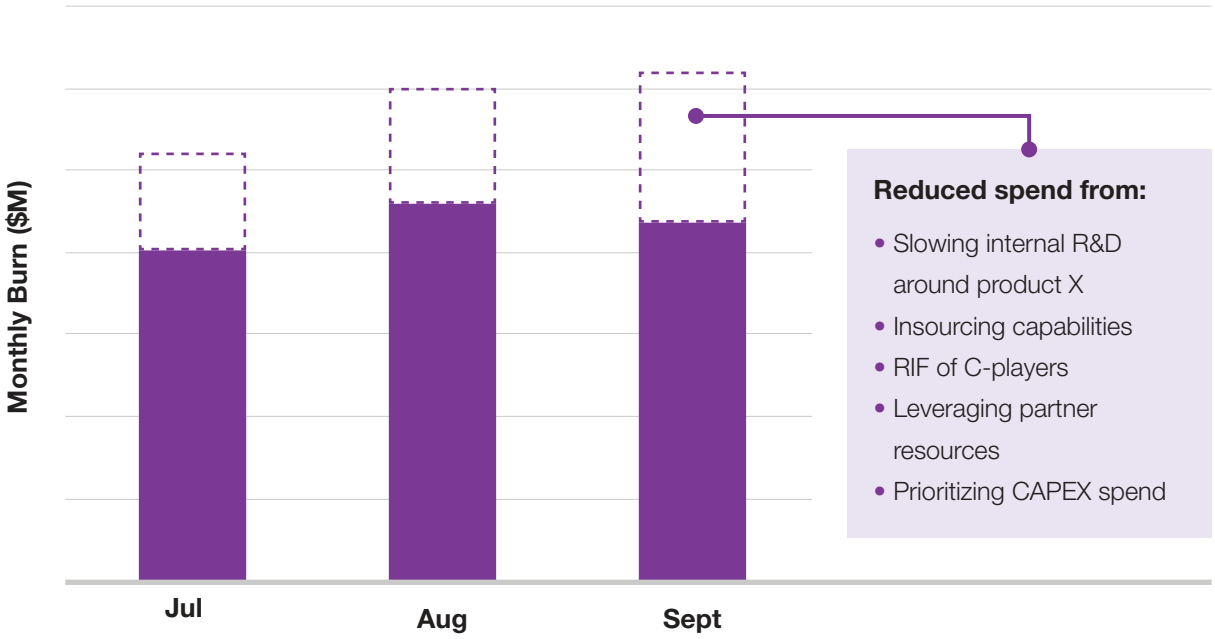
What's in a plan

- Reduce non-essential spending immediately
- Develop if-then "triggers" to show actions in different situations
- Define base/downside/survival cash plans based on triggers
- The plan can evolve, but try to be disciplined

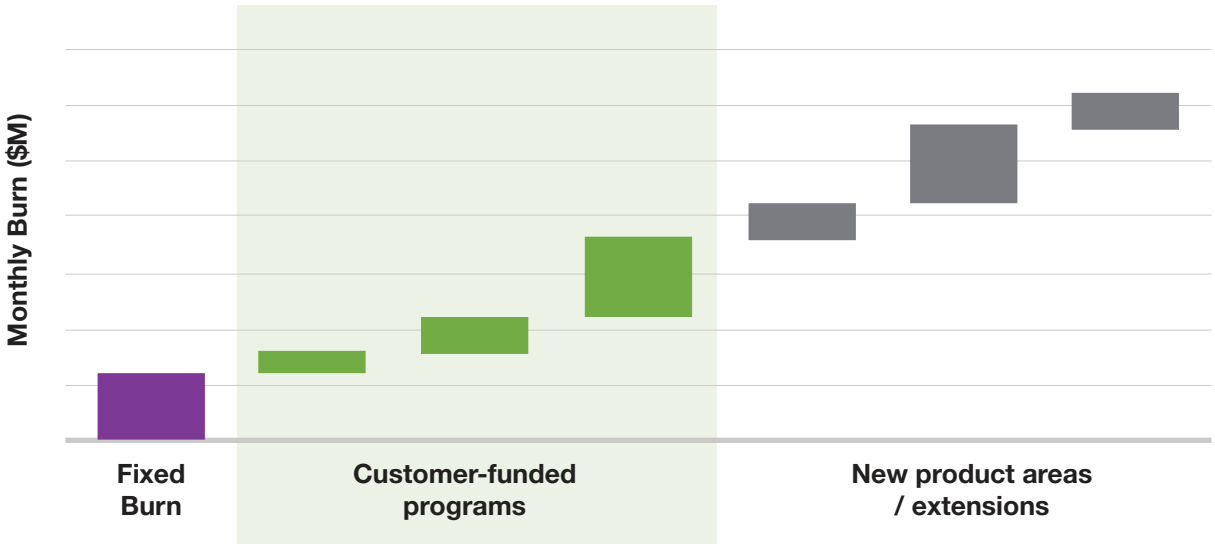
The details matter

- Level of detail for if-then planning is considerable
- Use decision trees
- For instance: If you don't particular funding or a partner fails to materialize, then cut off certain product development
- React, respond and be committed to the plan
- Think through when to pull the trigger on a particular decision and how will that impact the company

Spend wisely: cash management



Manage burn on customer commitments



If/then planning milestone matrix

Milestone Matrix: EcoMotors

		Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015
Cust 1	Milestone	1) Test & Rept accept, license revenue $XM comes in	1) Prod Suppor ($XM) 2) Commercial Agmnt	1) Phase II milestone accept ($XM)*	1) Phase II accpet? 2) Com Agmnt 1st Pmt	1) Gas Design ($XM)*	1) Gas Design ($XM)*	1) Diesel SOP
	Action for miss	1) Continue work for 2Q's 2) Hold XX capex spend	1) Continue work for 1Q 2) Hold XX capex spend	1) No award, don't start work on Phas II - give 2Q's	1) No accept, reneogtiate; 30% burn cut 2) No pmt, hold work	1) No award, don't start program - opportunistic	1) No award, don't start program	1) Slow sales/ marketing spend by 20%- 3Q delay 2) Delay ramp of China bus dev team
Cust 2	Milestone	1) Gen 6 w/EGR 1 ($XM)	1) Gen 7 durabil-ity ($XM)	1) JDA/CNG signed	1) JDA/CNG signed 2) Patern installs 2nd capex tranche			
	Action for miss	1) Continue work for 2Q's 2) Hold XX capex spend	1) Continue work for 2Q's 2) Hold XX capex spend	1) No prog, no cost	1) No prog, no cost 2) Slow spend on dedicated engineering team - 2Q			
Other 1	Milestone	1) Qualified gasoline design	1) Qualified gasoline design	1) TBD JDA/DS		1) Gasoline order		
	Action for miss	1) Continue work for 2Q's, halt tooling spend	1) Continue work for 1Q, halt tooling spend	1) No award, no cost		1) No order, no tooling		
Other 2	Milestone	1) Qualified CNG/ Meth design	1) Qualified CNG/ Meth design	1) FAW term sheet	1) Comm agrmt signed			
	Action for miss	1) Continue work for 2Q's, halt tooling spend	1) Continue work for 1Q, halt tooling spend	1) Halt CNG/ meth work until signed TS				

	$/month	Approx Quarterly Burn						
Fixed	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
Cust 1	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
Cust 2	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
Near term	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
Other 1	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
Other 2	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
Mgmt plan	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
Run rate	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX

Translate to scenarios

	Milestone	Base	Downside	Survival
Cust 1	Phase II milestone	Q1 2014	Q3 2014	Q1 2015
	Gas Design	Q3 2014	Q1 2015	Never
	Diesel SOP	Q1 2015	Q3 2015	Q1 2016
Cust 2	Gen 7 durability	Q4 2013	Q1 2014	Never
	JDA / CNG	Q1 2014	Q4 2014	Never
	Partner installs 2nd tranche	Q2 2014	Q4 2014	Never
Other 1	Qualified gas design	Q3 2013	Q1 2014	Never
	JDA / DS	Q1 2014	Q3 2014	Never
	Gasoline order	Q3 2014	Q2 2015	Never
Other 2	Qualified CNG/Meth design	Q3 2013	Q1 2014	Never
	FAW term sheet	Q1 2014	Q3 2014	Never
	Comm agreement	Q2 2014	Q1 2015	Never

Monthly Base Burn	Base	Downside	Survival
2013	XXX	XXX	XXX
2014	XXX	XXX	XXX
2015	XXX	XXX	XXX
Cash out date	**XXX**	**XXX**	**XXX**

If/then planning case studies

In this panel moderated by KV investment partner, Andrew Chung, hear from KV CEOs as they discuss if/then scenario planning and how a startup can manage its spend to achieve success.

Panelists

- CEO of LanzaTech, Jennifer Holmgren
- President/CEO of Stion, Chet Ferris
- Eco Motors, Don Runkle

Watch video online