

Using Assumptions to Build Your Case

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Key Concepts:

1. **Be Specific.**
2. **Distinguish between fact and opinion.**
3. **Provide citations from the best source possible.**

Assumptions are often ignored (or assumed) yet they allow us to develop a business case or make a plan. Specifically, assumptions are used:

- 1) To provide a starting point so we can identify that which we agree on.
- 2) To plan and make decisions when faced with uncertainty.ⁱ

An **assumption** is something we reasonably believe to be true, but we lack sufficient proof to confirm. An assumption may be an assertion we make as a starting point, like a hypothesis, or it might be a logical conclusion that we can't confirm. For example:

- Better signage will enhance the customer experience,
- Market research shows that our best price point is \$99.99 per unit, or
- We should expect to face litigation for a previous incident.

BEST PRACTICES

1. Be specific.

When making assumptions be as specific as possible and provide references as support.

Avoid vague claims such as "upper middle class," Instead try:

- Individuals with an annual income in excess of \$150,000.
- Go one step further and identify the age of these earners and possibly where they live, how much education they typically have, and their buying habits.

Avoid, "Baby Boomers"

- Remind us that Baby Boomers were born between 1946 and 1963 and state why this demographic is important for your company.

Avoid, "most people."

- Substantiate with a clear definition of the behaviour, demographics or location of the people you are referring to.

- Back it up with statistics or citations from research that proves your point.
- Avoid, “a lot of people care about the environment,” Instead say:
- In Canada x% of people identify the environment as one of their top 3 considerations when choosing a candidate in an election.
 - This is even more meaningful if you can show a trend: This is up x% in the last 20 years.

1) Answer on Connect: Use the resource below, or find your own, to make a strong statement about Canadian attitudes toward environmental stewardship. Use a comparison or other tool to provide context and meaning to your assertion.

Angus Reid Poll

http://www.angus-reid.com/polls/39308/canadians_want_more_action_on_the_environment/

Similarly, “yoga is a big trend” is a weak statement. It’s much more meaningful to say:

- 1/3 of women aged 18-35 have been to yoga x times in the last month.
- And even better if you say when, perhaps 2013 or in the last 3 years; and where (Vancouver, Canada, North America) and then provide that number. We can easily find out from StatsCan how many women in Canada are currently aged 18-35; it’s easy math to calculate 1/3 of that.

Answer on Connect:

2) Use 1 or more resources to make a strong statement about the number of people engaged in yoga in 2013.



3) Provide an example of what this information might be used for. E.g. an assumption about other activities our target market is engaged in or a fact about our customer base.

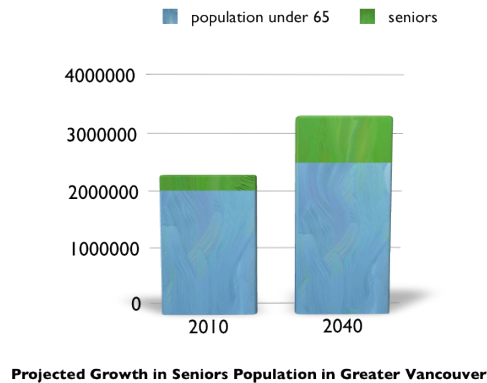
2. Distinguish between fact and opinion.

A **fact** is something that is known and can be proven. An **opinion** is something we believe to be true and may have a great deal of evidence to support, but the conclusion drawn from the evidence may vary from person to person.

The following claims are fact. Each is supported with a credible reference:

- Seniors aged 65 and over are the “fastest growing component of the population in most developed countries.”ⁱⁱ
- Almost one third of British Columbia’s population is currently over the age of 50.ⁱⁱⁱ
- Within the senior’s population, the fastest growing segment consists of those aged 85 and older.^{iv}
- By 2031, more than 1.3 million British Columbians will be over 65 – almost one quarter of our population.^v

Taken together these facts have greater impact that is further emphasized with a simple graph, shown below:



The following claims are opinion; a case must be built to give them credibility and they should be referenced by a credible source such as an expert in the field or as the result of a formal study:

- Mobility is crucial to older people’s physical and mental health and wellbeing, their ability to live independently and age in place, and their effective participation in their community.
- The right to drive a car is a privilege, but *mobility* is a right and a necessity.

In the first instance, studies and statistics can be cited to support the assumption. In the second instance, it will have to stand as the opinion of the writer and the agency the writer represents since there exists in Canada no formal collective agreement that mobility is a right. In both instances they can be used as assumptions.

4) Answer on Connect: Identify a credible source that demonstrates the importance of access to transportation for seniors. Explain why the source is credible.

3. Provide Citations from the best source possible.

For every assumption you make, provide the best possible citation. This means you reference the original source rather than a blog or website somewhere else.

While mobility may not be an official right, in Canada, we have agreed that it is a right to be free from discrimination on the basis of sexual orientation.^{vi} This is the basis on which the Deans of Canada's Law Schools and the Canadian Bar Association say Trinity Western University's proposed new Law School should not be accredited^{vii} since Trinity Western has a covenant requiring students to “abstain from... sexual intimacy that violates the sacredness of marriage between a man and a woman.”^{viii} With the weight of the Canadian Charter of Rights and Freedoms, they can take what many would consider to be an opinion, and state it as established agreement on which to build an argument. In business writing it might read, “In Canada we have agreed that homosexuality is a right, therefore....” How you might feel about homosexuality is irrelevant.

In this case, the Canadian Bar Association website is a better, more direct reference than the CBC or other news sources. If you are citing Trinity Western’s Community Covenant Agreement, or the Charter of Rights and Freedoms, the original source must be cited since any small change in the language could mean a significant difference in meaning.

For Class Discussion:

When Coca-Cola chose K’naan and his song “Wavin’ Flag” for its promotional anthem for the 2010 FIFA World Cup, what facts about K’nann would they have likely considered and what assumptions do you think they made?

<http://vimeo.com/54602515>

When is an assumption a fact and when is it an educated guess?

What happens to our argument when assumptions are not expressly stated?

In the west we generally assume that capitalism, democracy and the Charter of Rights and Freedoms are good things that are immutable. What would it look like if we started to question these things? Would it weaken them or could we come up with something that might be even better?

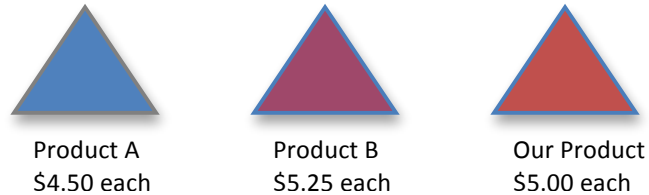


4. Other Examples

a) Pricing Assumptions

Price for a new product is determined by your best guess which is supported by market research and various other assumptions.

When considering pricing a product, you might compare it to similar products. Identify what is similar and what is different, and build your assumptions from there.



- You might provide a justification for the price by explaining that our product has these same characteristics as Product A, which is priced at \$4.50/unit, and these same characteristics as Product B, which is priced at \$5.25/unit. Therefore we are assuming a price point of \$5.00 per unit because our product more closely resembles Product B and appeals to a similar target market.

Alternatively you might compare target market, distribution channels, production costs, packaging, ease of use, etc.

- For example, ProBoost's costs are \$2.50/unit. The average industry markup is 50%. We will price ProBoost at \$3.50/unit based on the assumption that a slightly lower price will allow us to compete, in part, on price.



b) Store Location

A company has a store on Granville Street in Vancouver that is successful and wishes to open a second store in a location that will have similar characteristics.

- Granville Street experiences 40,000 vehicle passes per day. We used this as a base and assumed that only locations that had a minimum 30,000 passes/day would be considered for expansion.
- We selected appropriate neighbourhoods and identified all the streets within them that had at least 30,000 vehicle passes/day.
- Instead of driving around and anecdotally determining which streets seemed the busiest, we found out how many people per day could be expected to drive past that location so we were backing up our assumptions with fact. This information was obtained from the Planning Department in each relevant municipality.



c) Accounting

In accounting we make similar assumptions. For instance we assume an asset has a useful life of 30 years and a residual value of \$50,000. We base this on our knowledge of other

similar assets as well as what the manufacturer tells us. These numbers must be identified in the financial statements.

d) Company Sale

In preparing a company for sale, we based the sale price largely on past revenue with the expectation that it would continue to grow at a similar pace. To justify this we made the following assumptions, that we later backed up with proof:

- The Company is a going concern, with the expectation that it will continue to operate in much the same manner as it has.
- The Company can reasonably expect to maintain a steady increase in revenue for the foreseeable future and beyond because:
 - Sales have been increasing at an average of 7.5% per year over the last five years, with the gross margin remaining consistent in the 40% range, and operating expenses remaining steady between 12-14%.



e) Mobile Phone App

When considering the development of a mobile phone app, you will be required to make some key assumptions which you will use to estimate the size of your potential market:

- Demographics of your target market – particularly age and location
- Number of people in that demographic who own smart phones
- Willingness of that demographic to adopt new technology or new buying habits



5) Answer on Connect: Give an example of a business activity and a corresponding set of assumptions similar to one of the 5 examples above. For instance, what if a grocery store wanted to increase sales by expanding its target market or opening an online store?

ⁱⁱ OECD 2000

ⁱⁱⁱ 2006 Census

^{iv} Seniors Healthy Living Framework, BC Seniors and Healthy Living Secretariat, Ministry of Healthy Living and Sport, Victoria, BC, www.gov.bc.ca/hls, pages 6-7.

^v *Ibid.*

^{vi} <http://laws-lois.justice.gc.ca/eng/Const/page-15.html>

^{vii} <http://stage->

[na.cba.org/Blog/February_2013/SOGIC_on_Trinity_Western_University_s_law_school_b.aspx?feed=blogs](http://stage-na.cba.org/Blog/February_2013/SOGIC_on_Trinity_Western_University_s_law_school_b.aspx?feed=blogs)

^{viii} <http://twu.ca/studenthandbook/university-policies/community-covenant-agreement.html>