

Business Plan Flaws
Adapted from “Why Business Plans Don’t Deliver”
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“Here I am, Never Mind the Problem” – start with the customer. What is the point of pain? Can you define the target market narrowly? Example, Nike targeting elite runners initially. Very small market but success there spread demand into the broader market. Don’t focus on the technology and the solution first, explain how your solution relieves the pain. Support the need with market research and data, don’t just assert it.

“A Coke for Every Kid in China” – don’t rely on secondary data to show just how large a potential market is. Typical plans contain something along the lines of - One billion people in China, if we only get 1% penetration we’ll have 10 million customers. That thinking might work for Coca Cola, but you’re not Coke. How do you make them aware of your solution? How will you market and distribute it? Does the customer recognize the pain that your relieve? Use the secondary data but back it up with primary research. Do a test marketing exercise. Talk to potential customers to understand them better and hone your solution.

“Just Look at our (Paper) Profits” – Don’t build an elaborate profit model on flawed market insight. Example of Pets,Com where they failed to see the likely resistance of buyers to paying delivery charges on heavy bags of dog food ordered online. It’s far cheaper to drive to Petco and throw a 30 pound bag in the back of the SUV than to pay UPS rates on 30 pound bags. Also, does you plan fully reflect the characteristics of your market in terms of payment cycles, sales cycles, working capital requirements, fixed asset requirements and other basic business issues?

“Out Team Walks on Water” – does your plan reflect an understanding of the critical success factors germane to your industry? Has your team been successful in your industry before, especially in an entrepreneurial setting instead of a Fortune 500? Don’t be bashful about identifying potential weakness in your plan or your team. Be open to the idea that you may need a CEO or COO to supplement you or your team. Having a team member or founder who has had previous failures in your industry is also valuable as lessons learned will guide your decision-making in the enterprise. In an Angel investment setting, this might make you even more attractive as some investors are looking for active involvement and can bring high level skills to the effort.

“Everything is Wonderful” – Don’t be a Pollyanna in your prose. Recognize the weak points or potential pitfalls. Most of the few new businesses that succeed do so by reverting to “Plan B” when following the business plan (Plan A) encounters obstacles to success. Your business plan should demonstrate that you are aware of potential roadblocks and that you have the flexibility and insight to react positively with a Plan B.

“Telltale Terms” – these are some of the common mistakes we see in plans:

Huge – writer has not bothered to identify a carefully researched and understood target market

Conservative – entrepreneur’s forecasts are rarely conservative. Just explain your assumptions and research in detail and let us decide if we think they’re reasonable

Revolutionary – don’t fall in love with the technology while failing to understand the customers and their point of pain. Why will the customer accept your solution? What other choices do they have? Why is yours superior from their viewpoint, not yours?

Assumptions – don’t “assume” the numbers. Set out your data on which you base your financials so that we - or even better, you - can stress test them. Your forecasts should be updateable as new evidence is developed during any due diligence period.

“We believe” – investors want facts and fact-based opinion, not beliefs. If you don’t have hard information, go out and get some before you finish the plan.

“No competition” – this phrase is deadly. It conveys both arrogance and ignorance. Often a simple web search turns up many competitors not identified in a plan. Why aren’t they there? Either arrogance (our solution is so superior to theirs that they aren’t really competitors) or ignorance (who are you referring to?) Remember, the customer may never know that your solution is more elegant than their old standby. What will make them abandon their old standby and adopt your solution? Your competition includes all of the alternative solutions as well as the null, just living with the pain. Finally, realize that a competitive market might be a good thing. It shows investors that there is a market for you and that others believe they can make money there.

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