# Top 10 Business Plan Mistakes

## When it comes to creating a business plan that attracts investors, these tips will help you get it right the first time.

Every business should have a business plan. Unfortunately, despite the fact that many of the underlying businesses are viable, the vast majority of plans are hardly worth the paper they're printed on. Most "bad" business plans share one or more of the following problems:

**1. The plan is poorly written.** Spelling, punctuation, grammar and style are all important when it comes to getting your business plandown on paper. Although investors don't expect to be investing in a company run by English majors, they are looking for clues about the underlying business and its leaders when they're perusing a plan. When they see one with spelling, punctuation and grammar errors, they immediately wonder what else is wrong with the business. But since there's no shortage of people looking for capital, they don't wonder for long--they just move on to the next plan.

Before you show your plan to a single investor or banker, go through every line of the plan with a fine-tooth comb. Run your spell check--which should catch spelling and punctuation errors, and have someone you know with strong "English teacher" skills review it for grammar problems.

Style is subtler, but it's equally important. Different entrepreneurs write in different styles. If your style is "confident," "crisp," "clean," "authoritative" or "formal," you'll rarely have problems. If, however, your style is "arrogant," "sloppy," "folksy," "turgid" or "smarmy," you may turn off potential investors, although it's a fact that different styles appeal to different investors. No matter what style you choose for your business plan, be sure it's consistent throughout the plan, and that it fits your intended audience and your business. For instance, I once met a conservative Midwest banker who funded an Indian-Japanese fusion restaurant partly because the plan was--like the restaurant concept--upbeat, trendy and unconventional.

**2. The plan presentation is sloppy.** Once your writing's perfect, the presentation has to match. Nothing peeves investors more than inconsistent margins, missing page numbers, charts without labels or with incorrect units, tables without headings, technical terminology without definitions or a missing table of contents. Have someone else proofread your plan before you show it to an investor, banker or venture capitalist. Remember that while you'll undoubtedly spend months working on your plan, most investors won't give it more than 10 minutes before they make an initial decision about it. So if they start paging through your plan and can't find the section on "Management," they may decide to move on to the next, more organized plan in the stack.

**3. The plan is incomplete.** Every business has customers, products and services, operations, marketing and sales, a management team, and competitors. At an absolute minimum, your plan must cover all these areas. A complete plan should also include a discussion of the industry, particularly industry trends, such as if the market is growing or shrinking. Finally, your plan should include detailed financial projections--monthly cash flow and income statements, as well as annual balance sheets--going out at least three years.

**4. The plan is too vague.** A business plan is not a novel, a poem or a cryptogram. If a reasonably intelligent person with a high school education can't understand your plan, then you need to rewrite it. If you're trying to keep the information vague because your business involves highly confidential material, processes or technologies, then show people your executive summary first (which should never contain any proprietary information). Then, if they're interested in learning more about the business, have them sign noncompete and nondisclosure agreements before showing them the entire plan. [Be forewarned, however: Many venture capitalists and investors will *not*sign these agreements since they want to minimize their legal fees and have no interest in competing with you in any case.]

**5. The plan is too detailed.** Do not get bogged down in technical details! This is especially common with technology-based startups. Keep the technical details to a minimum in the main plan--if you want to include them, do so elsewhere, say, in an appendix. One way to do this is to break your plan into three parts: a two- to three-page executive summary, a 10- to 20-page business plan and an appendix that includes as many pages as needed to make it clear that you know what you're doing. This way, anyone reading the plan can get the amount of detail he or she wants.

**6. The plan makes unfounded or unrealistic assumptions.** By their very nature, business plans are full of assumptions. The most important assumption, of course, is that your business will succeed! The best business plans highlight critical assumptions and provide some sort of rationalization for them. The worst business plans bury assumptions throughout the plan so no one can tell where the assumptions end and the facts begin. Market size, acceptable pricing, customer purchasing behavior, time to commercialization--these all involve assumptions. Wherever possible, make sure you check your assumptions against benchmarks from the same industry, a similar industry or some other acceptable standard. Tie your assumptions to facts.

A simple example of this would be the real estate section of your plan. Every company eventually needs some sort of real estate, whether it's office space, industrial space or retail space. You should research the locations and costs for real estate in your area, and make a careful estimate of how much space you'll actually need before presenting your plan to any investors or lenders.

**7. The plan includes inadequate research.** Just as it's important to tie your assumptions to facts, it's equally important to make sure your facts are, well, facts. Learn everything you can about your business and your industry--customer purchasing habits, motivations and fears; competitor positioning, size and market share; and overall market trends. You don't want to get bogged down by the facts, but you should have some numbers, charts and statistics to back up any assumptions or projections you make. Well-prepared investors will check your numbers against industry data or third party studies--if your numbers don't jibe with their numbers, your plan probably won't get funded.

**8. You claim there's no risk involved in your new venture.** Any sensible investor understands there's really no such thing as a "no risk" business. There are always risks. You must understand them before presenting your plan to investors or lenders. Since a business plan is more of a marketing tool than anything else, I'd recommend minimizing the discussion of risks in your plan. If you do mention any risks, be sure to emphasize how you'll minimize or mitigate them. And be well prepared for questions about risks in later discussions with investors.

**9. You claim you have no competition.** It's absolutely amazing how many potential business owners include this statement in their business plans: "We have no competition."

If that's what you think, you couldn't be further from the truth. Every successful business has competitors, both direct and indirect. You should plan for stiff competition from the beginning. If you can't find any direct competitors today, try to imagine how the marketplace might look once you're successful. Identify ways you can compete, and accentuate your competitive advantages in the business plan.

**10. The business plan is really no plan at all.** A good business plan presents an overview of the business--now, in the short term, and in the long term. However, it doesn't just describe what the business looks like at each of those stages; it also describes how you'll get from one stage to the next. In other words, the plan provides a "roadmap" for the business, a roadmap that should be as specific as possible. It should contain definite milestones--major targets that have real meaning for your business. For instance, reasonable milestones might be "signing the 100th client" or "producing 10,000 units of product." The business plan should also outline all the major steps you need to complete to reach each milestone.

Smoothing Out the Rough Spots

Once you know what mistakes not to make, there are still a few steps you need to take to make your business plan "bulletproof." Be sure you . . .

- **Think it through.** You might have a great idea, but have you carefully mapped out all the steps you'll need to take to make the business a reality? Think about building your management team, hiring salespeople, setting up operations, getting your first customer, protecting yourself from lawsuits, outmaneuvering your competition, and so on. Think about cash flow and what measures you can take to minimize your expenses and maximize your revenue.

- **Do your research.** Investigate everything you can about your proposed business before you start writing your business plan--and long before you start the business. You'll also need to continue your research while you write the business plan, since inevitably, things will change as you uncover critical information. And while you're researching, be sure to consult multiple sources since many times the experts will disagree.

- **Research your potential customers and competitors.** Is your product or service something people really want or need, or is it just "cool"? Study your market. Is it growing or shrinking? Could some sort of disruptive technology or regulatory change alter the market in fundamental ways? Why do you think people will buy your product or service? If you don't have any customers or clients yet, you'll need to convince investors that you have something people really want or need, and more important, that they'll buy it at the price you expect.
- **Get feedback.** Obtain as much feedback as you can from trusted friends, colleagues, nonprofit organizations, and potential investors or lenders. You'll quickly find that almost everyone thinks they're an expert and they all could do a better job than you. This may be annoying, but it's just part of the feedback process. You'll know when you're done when you've heard the same questions and criticisms again and again and have a good answer to almost everything anyone can throw at you.
- **Hire professional help.** Find a professional you trust to help guide you through the entire process, fill in knowledge gaps (for instance, if you know marketing but not finance, you should hire a finance expert), provide additional, unbiased feedback, and package your plan in an attractive, professional format.

Writing a business plan is hard work--many people spend a year or more writing their plan. In the early, drafting stages, business plan software can be very helpful. But the hard part is developing a coherent picture of the business that makes sense, is appealing to others and provides a reasonable road map for the future. Your products, services, business model, customers, marketing and sales plan, internal operations, management team and financial projections must all tie together seamlessly. If they don't, you may not ever get your business off the ground.

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