

Venture Capitalists' view on critical mistakes in Business Plans

The Business Plan document is often the first exposure a venture capital firm has to a company seeking financing, often even before talking to the entrepreneur on the phone or having a meeting. It is therefore essential to make a good impression with the business plan to arouse the Venture Capitalist's interest.

Some critical mistakes cited by VC's for failure of the plan are listed below:-

- 1. Lack of clarity in explaining the opportunity.** More often than not this is because the plan is unable to demonstrate HOW the features of the product/service are going to meet the customer's needs, or how it stands out from competitor products and services.
- 2. Poor analysis of competition:** Often entrepreneurs underestimate their competition and fail to describe a sustainable competitive advantage through the erection of barriers to entry.
- 3. Overstated management strengths:** Entrepreneurs are often tempted to mislead the VCs with regard to their credentials. This is a fatal mistake because VCs generally carry out thorough background checks.
- 4. Unrealistic projections:** Enthused entrepreneurs are often inclined to overstate their expected revenues, without any basis reflected by the history of the company.
- 5. Miscalculation of market size and company market share:** Simplistic or naïve assumptions and explanation are often given as to how the company will capture market share.
- 6. Incomplete analysis of the risks of a venture:** Plans do not contain sufficient detail as to how they will cope with macroeconomic/ competitor/ regulatory risks.
- 7. Unstructured or poor presentation:** Clearly, it is no use having a good idea that one is unable to articulate in a convincing manner.
- 8. Incomplete or inconsistent information:** Not providing the VC with everything he needs to know to make a decision or contradicting yourself can be fatal errors.
- 9. Deficient description of a viable exit strategy:** It isn't enough to simply assume that one may be able to attract strategic investment/raise funds through an IPO a few years down the line.
- 10. Refusal to cede any amount to the VC**