

# Entrepreneur's Byline

**The Entrepreneur's Rosetta Stone:  
How to Read a Business Plan  
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Everywhere I look, there's advice on how to write a business plan. Detailed outlines, lengthy checklists and completed example plans provide a plethora of information on what to include in a document, how to include it and where to include it. Courses offer hands –on assistance in assembling on how to read a business plan.

A business plan to a savvy investor is like the Rosetta stone to an Egyptologist or a road cut to a geologist or an X-ray to a surgeon. Just as an Egyptologist discovers the keys to ancient inscriptions by deciphering the stone, and the geologist recognizes the story of earth's development in the layers in a road cut, and the surgeon learns precisely where to operate by interpreting the X-ray, so do investors find the promise and pitfalls of an emerging business by analyzing its business plan.

What are the critical clues that might reveal what a business is really all about and what future it actually might have? What kinds of discovery might actually crack the code of a proposed business and help determine whether it's a viable enterprise?

Having taught business plan writing and read hundreds of plans over the years, I've learned what helps to separate reality from hype, at least for me, in an entrepreneur's Rosetta stone. When I read a business plan, I look to find the answers to three questions. Is there really an opportunity here? Can these people pull it off? Will the cash flow?

## **Is There an Opportunity?**

When deciphering a plan, I go to the marketing section first. This area of the plan should reveal whether there is a genuine opportunity with the business or merely an idea disguised as a company. A true opportunity is customer-driven. It addresses a real problem or fulfills a real need. Thus I search for evidence of the following:

- *Knot in the stomach.* A convincing plan effectively describes the knot in the stomach of buyers. It delineates what buyers are worried about and why they are concerned about it. It shows, through personal experience, survey data, statistics, and buyer testimonials, what keep customers awake at night. For example, I was impressed with a plan that offered a new software package to expedite the approval process for Underwriter Laboratory certification on electronic devices. The plan detailed the rejection rate for first-time certification, outlined the costs for multiple application, expressed the frustration of those applying for certification and provided data on the lengthy time required to get certified. Clearly, there was a need here.
- *Profile of the customer.* A good plan provides a detailed profile of the primary customer. Too many plans assume that anyone or everyone will buy the product or service. A convincing plan clearly identifies who the primary buyer is and why

that person is the primary buyer. I read a plan that offered a new kind of drawing material to artists. But not just any artists. The plan focused on commercial artists, describe their likes and dislikes, delineated how they worked and where they purchased art supplies, and identified their key artistic issues. I believed the entrepreneurs behind this plan really knew their customer.

- *Direct interaction with customers.* A winning plan shows direct interaction with the possible purchasers of the product or service. By involving customers in product development, utilizing beta sites, conducting in-depth surveys, generating purchase customers, a plan can communicate personal connection to real customers. For example, a plan for a company selling salsas and other sauces provided the results of detailed taste tests that convincingly showed customer delight with products.

### **Can They Pull it Off ?**

If the plan lays out a real opportunity, I assess the people who are presenting it. I try to determine whether the entrepreneur and the team have the competence, commitment and passion to turn the opportunity into a viable enterprise. So, I'll search for clues on the following:

- *Talent.* What kind of know-how and experience do the entrepreneur and the team bring to the venture? Since I'm trying to determine their capability in the written document, I'll look for evidence like previous success in other ventures or projects, credentials in their areas of expertise, ownership of intellectual property and knowledge of the industry in which pursue a poorly written plan because the two individuals who wrote it were highly regarded scientist, owned a number of patents on their technology and had worked for several years in the industry in which they wanted to compete.
- *Skin in the game.* It's awfully easy to spend someone else's money. Consequently, I look to see whether the entrepreneurs have invested any of their own money in the venture. Putting their own money into the business indicates a level of commitment that shows genuine seriousness in the venture. I see a lot of business plans today written by graduate student who wants to start companies. Many indicate that they can't put money into their venture because they don't have any to put in. I always encourage them to find a way to put something into it. The amount of money is less important than the fact the entrepreneurs are willing to invest more in their venture than their own sweat equity.
- *Passion.* Although passion cannot be quantified, I do believe that it can be communicated in a plan. I want to bet on someone who has the energy, enthusiasm and zeal to pursue what to that person is a worthy, challenging and uplifting purpose. Consequently, I look at how entrepreneurs tell their story, to understand why this business is an important endeavor and to sense what really motives the founders. I read a plan from one entrepreneur who was downsized, set up a business in his basement and then, through persistence and hard work, discovered that it could grow. That fellow had passion for what he was doing.

### **Will the Cash Flow?**

Finally, I assess whether the entrepreneur knows enough of financials to effectively evaluate the cash flow position of the company. Projections of revenues are too often misleading. They always project success. No plan ever predicts failure, or shows an

upside-down hockey stick for revenue loss, or tells investors that they're sure to lose their shirts on this one. In fact, in my experience, all projections are "conservative," no matter how incredibly optimistic they may be.

More telling than projections is the cash-flow statement of the company. If the entrepreneur can accurately and completely tally actual expenses and income in detail, then the plan presents a realistic perspective on critical milestones and on whether and for how long the company can stay above water until an infusion of capital is necessary.

Deciphering a business plan requires a bit of detective work. Analyzing information, detecting clues and interpreting findings are all part of determining the viability of a venture. Even after that, there is no guarantee of success for the business. But looking for the right signs may clarify the mystery of identifying truly promising enterprises.

Opportunity, committed people, and cash flow are the keys that crack the code of an entrepreneur's Rosetta stone.