

Fatal Mistakes To Avoid When Writing a business plan...

Too much Information

When is a 35-page business plan better than a 100-page business plan. The answer is – always.

Most investors have a mental checklist of half dozen or so specific points that they look for in a business plan. Everything else just gets in the way and the last thing they want to do is wade through pages and pages of tedious and often extraneous narrative. Long complex paragraphs that fill up half a page are about as welcome as Mike Wallace knocking on your door.

The purpose of your plan is not to impress the reader with the depth and extent of your knowledge. Your objective is to focus on the key elements of the plan and make your case as succinct and as straight forward as possible. If you have pages of information that you just can't bear to part with, put them in the back of the plan under an addendum and reference the information in the body of the plan. The reader then has the option of reviewing this information if they think it's important.

Hiding weaknesses

One of the more difficult aspects of writing a good business plan is effectively dealing with problems or weaknesses- and every business has them. Here are some of the more common theories offered by unsuccessful plan writers.

- ⇒ Why draw unnecessary attention to a negative
- ⇒ If we ignore the weaknesses, they may go away
- ⇒ Once we get funding, then we can deal with the problems
- ⇒ What the investors don't know won't hurt them
- ⇒ It works for Tony Robins

Clearly you want to put your best foot forward but ignoring or glossing over a negative issue simply because it doesn't help your cause is potentially very damaging and is very often fatal. Like a heat-seeking missile, if there is a weakness in your product, service or strategy, the savvy investor will find it and probably within the first few minutes. Once this subterfuge is uncovered and it is obvious to everyone that you haven't been completely forthright, the next logical question is "what else haven't you told me." When you've lost this element of trust, you've lost the opportunity.

The best way and really the only way of properly handling problems and weaknesses is to get them out in the open and to have a detailed and well thought out action plan that effectively addresses each problem.

Distribution Channels

The portion of your plan that deals with channel strategies is fraught with potential landmines especially if you don't have a through understand of distribution. How your

product reaches the market is unquestionably one of the most important aspects of your business plan and your ability to effectively articulate this strategy is critical. At all costs, resist the temptation to cover all bases by listing every imaginable channel possibility.

“We will market our widgets via Internet, catalogs, distributors, value added resellers, infomercials, wholesalers, direct mail, agents, direct field sales, telemarketing, retail outlets and- oh yes smoke signals in selected areas.

What this tells the investor is that you don't have a channel strategy.”

Competitive Analysis

The operative word here is “analysis.” Listing the name and address of your competitors is NOT a competitive analysis. The investor is interested in knowing what you know and expect to see from your competitors near term and longer term. What is their strategic direction, their core competences and what makes them tick. Why do customers buy from them. Is there a possibility that they might enter into strategic relationship or an acquisition (or be acquired) and by whom. How good is their sales and support organization. What is their funding position. What are their weaknesses and can they be exploited.

Knowing little or nothing about your competition is evidence that you haven't done your homework. While it may not be fatal blow, it certainly doesn't help your cause.

Legal Entanglements

Investors today are very conscious of potential legal problems that may be lurking around the corner. If they have any interest in your plan and business proposal they will conduct their own due diligence. The time to address any potential legal problems, however, is during the plan review. Here are some questions to ask yourself if you're not sure of potential legal issues:

- ⇒ Was your product developed while you were employed somewhere else
- ⇒ Are there potential employment contracts or non-compete conflicts
- ⇒ Is there any possible patent infringement issues
- ⇒ Are there any disgruntled former employees whom could sue your company
- ⇒ Is there clear ownership of your product or service

If you have doubts about any of the above questions, it's probably a good idea to have an attorney review and resolve the issue before you meet with an investor. A good rule of thumb is that you want to avoid surprise- at all costs.

Assessment Of Risks

Risks are different than weaknesses in that they deal with the future and are normally outside the realm of your business. Are there market forces that could prevent your plan from being successful and if so, what are they. Some common sense should lead you through this exercise. I would, for example, leave out world wars or Armageddon but I would consider the possible impact of new technology, e-commerce, changes in consumer demand and a variety of other issues that could negatively impact your business.

Financial Projections

You're sitting across the conference room table from your prospective investor. He's read through your plan, asked a lot of tough questions but things have gone reasonably well- so far. Then he turn to the financials.

There is a long pause and then he looks at you and asks, "what data do you have to support these projections?"

Dead silence. Sweat is starting to accumulate on your upper lip. You glance over at your finance guy who avoids eye contacts but still manages to shrugs his shoulders as if to say "hey, I'm just the messenger."

"Well, ah-ah-our projections were based on our analysis of the market, competition and what we feel are the advantages of our product line."

"Okay, show me your analysis..." Point-set-match.

Here's a tip. First, be prepared for this question because it will come up. The likelihood that anyone will invest in your business based solely on your "best guess" of revenues and net income are pretty remote- even if you're dot-com. There is a very strong correlation between the amount of research data that you have to support your projections and the likelihood of success in securing funding. This doesn't necessarily mean that you need to spend months and thousands of dollars on focus groups, surveys and market research. What it does mean, however, is that you should have and be able to provide convincing rationale for how your projections were put together.

Source:

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