Common Mistakes In Business Plans

By The Business Plan Factory

Your business plan is typically the first impression potential lenders of investors get about your business idea. Even with a great product, team, and customers, and you are unable to convey to properly convey your image, it could be the last impression if your plan has some of the following, common mistakes. Lenders and investors review hundreds of business plan every year and with every plan, lenders and investors become more cynical because the same mistakes pop up with regular frequency. With so much competition for a limited amount of capital, it is imperative to not make these mistakes. 1. Financials Unrealistic Financial Projections - Simply saying that you are going to do $100,000 in sales is not enough nor can you simply say there is no way of knowing. Everyone knows there is no way to accurately come up with financial projections over the next three years, especially in a start-up. But, what is required in your plan is that reasonable assumptions are made and supported with research. By incorporating a detailed list of assumptions and how you arrived at your numbers, the lender/investor can judge your analysis and decision making process. If you are projecting to generate high sales outside of industry norms, explaining how you arrived at this conclusion is a must. Lenders and investors have seen many, many plans that claim sales are going through the roof once funded and as a result are very jaded at statements like this. Financial data that is inconsistent with industry averages and overly aggressive sales figures will raise flags. Explain every number. Confusing Cash with Profits - Revenues do not always equal cash. For example, suppose you make a sale this month for $100 that cost $50 to produce. Assuming your buyer doesn't pay for 30-60 and even 90 days if dealing with state or federal sources (and assuming they all pay), the effect on your cash flow is significant. Suppliers and employees still have to be paid for their work while you are waiting on payment from the buyer. While you may not have a significant portion of sales coming from receivables, the timing of cash flows is critical for developing a financial strategy as cash flow is much more important than profits. Profits are an accounting concept while cash is money in the bank. If you don't believe me try paying your bills with profits. No Adjustment for Seasonality - All businesses are seasonal to some extent, some more significant than others. Seasonality refers to the percentage of sales that are made in a month. For example, most retailers have huge November and December sales and lousy January and February sales. Did you make enough cash during the good months to cover the slow months to cover salaries, rents and lights? If You Build It They Will Come - Be careful in assuming once your doors open people will be streaming in to buy. You have a new, relatively unheard of business. This is a time when your business is particularly vulnerable as most of new owner's cash reserves have typically been used to open the store. If sales projections are off during the first couple of months and you don't have enough working capital to keep the lights on, you may be quickly going out of business. Insufficient financial projections - Basic financial projections consist of four elements: Income Statements, Profit & Loss, Balance Sheets, and Cash Flow Statements. For most businesses a three-year projection is sufficient, but if yours is a capital intensive one and will take longer to show profitability then use five. Actual figures are a must if you can get them and any number in the projections needs to be in the business plan narrative. If you are purchasing an existing business use the historical financials to show support for your sales figures. No Quotes - Any significant expenses should have a quote accompanied in the appendix, especially for construction or remodeling as this is an area where most entrepreneurs slip as they do it themselves and greatly underestimate the costs. 2. Marketing Failing to relieve the customer's pain - Businesses are rewarded to make consumer's pain go away. Pain can include; my car stopped working, my doggie is sick or my tax returns are too hard to prepare. If your business plan can't show how you are relieving the customer's pain, then the chances for success in the marketplace is extremely limited. Remember pain equals market opportunity. The greater the pain, the greater number of customer's with this pain and the better you can relieve the pain equals greater market potential. One Billion Customers Served - Claiming everyone needs your product/service will send a strong message to the reviewer that you don't know your market and remove any credibility to your plan. In the good old days the shotgun approach to marketing could work as there were limited channels for advertisement. Today with unlimited outlets and more narrowly defined markets, this approach does not fly. While it's true everyone eats, not everyone will eat at your restaurant, nor could you effectively advertise to everyone. By researching the segments that are most likely to use your product/service and showing how your message will get to them will ultimately make your endeavor more successful. Having clearly defined target markets will show you have done your homework and be the cornerstone of a marketing strategy that can succeed. We have no competition - Use this statement if your want your plan rejected. Every business has competition. While there may not be a direct competitor, meaning one that offers the same or similar product, there is always an indirect competitor. Saying there is no competition tells the reviewer that you have either not done any market research or there is not a market for your product. 3. Organization Writing For The Wrong Audience - A plan for a lender should be written differently than one for an investor. Banks are interested in seeing the likelihood that debts be repaid and investors are interested in the upside profit potential. Be sure to write your plan to your audience. For both, keep to the facts, keep it clear and keep it simple. If you don't feel you have the writing abilities to make your plan shine, then get help. Poor spelling and grammar - Leaving spelling and grammatical errors in your plan only tells the reviewer that you are not paying attention to details and may not pay enough attention to the business. Use spelling and grammar checkers and let others review your plan to make sure there are no errors. Too repetitive - Many times, plans will cover the same points over and over. A well-written plan should cover key points only twice: once in the executive summary then again in greater detail in the narrative of the plan. Remove the Jargon - Using simple language is imperative to getting a technical business funded. Don't think that by using complex terms that lenders/investors will be so impressed with your knowledge that they will whip open the checkbook. Businesses that can't be understood don't get funded. If you can't explain your business to a sixth grader your chances of funding are in jeopardy. Investors are really only interested in your technology if it solves a problem that people will pay for, is better than the competition, can be protected through patents and can reasonably go to market without spending a lot of money. Keep the technical details out of the business plan and in the white papers. Appearance matters - Make sure your plan looks professional. Use professional printing, binding, keeping fonts consistent and easy to read. The more money being requested means investing more time in making sure your plan will stand out from the crowd. Be careful that you don't go overboard and give the impression that the plan is all style and no substance. Length - A long business plan does not make a better business plan. All of the industry and marketing research won't save a flawed plan. Too many plans have been immediately rejected because they are too long. Lenders and investors favor entrepreneurs who can efficiently demonstrate the ability to efficiently get to the point. An executive summary should be no more than 1-3 pages. Ideally it should only be one page but some complex plans require more. An ideal business plan is 20-30 pages, including financials. Remember less is more! Use operating plans, white papers and marketing plans for the in-depth details. Fluffing - Using phrases like "unmatched in the industry;" "narrow window of opportunity;" or "ground floor" are empty phrases filled with hype. If anything, the cynical reviewer will be turned off by the hype and trash your plan. Stick with laying out the facts – what is the problem, how will you solve the problem, how big is the market, how will consumers buy it and what is your competitive advantage. If the opportunity is there the lender/investor will be able to make the decision for themselves. Overvaluing the business idea - What gives a business value is not the idea but the execution of the idea. A great idea is a start, but almost everyone has had a great idea at some point in their lives. How you will execute this idea is what sets apart a real business from the dreamers. 4. Execution Mistakes Waiting too long - Funding a business takes a long time. Expect three months at a minimum after finishing your business plan to get funding. Unless you have sufficient capital, other sources of income and can be funded in-house at a bank, this number may be reduced. Bank financing for business with less than two years of operating history are typically funded through an SBA guarantee, which requires additional time, patience and paperwork. Financing through investors is usually an even longer process as they have a lot of people competing for their money and they tend to do significant due diligence to secure their investment. Waiting until you need the money is a sure way to keep your business from launching. Unreasonable time lines - Many business owners underestimate the timelines for completing milestones. Its human nature to think we can do things faster than is possible. When getting a business started there will be several tasks you could not have anticipated and the some tasks you think will be easy which will end up taking much longer. It is best to overestimate and finish early, rather than scramble and execute your opening poorly. Failing to seek outside review - When preparing your plan, be sure that you have at least a few people review it before sending it out. Preferably look for people in your industry or who have a specialization in sales, distribution, etc that could lend a fresh set of eyes and find any flaws in the plan. Being so close to the action can keep you from being objective and this additional scrutiny may save you countless headaches and money down the road. Perfecting - It can be easy to spend countless hours perfecting your plan and ultimately never launching. Remember, your plan will never be perfect and in practice should be continually updated as you learn more about the business, market and customers. Don't make your plan an academic practice, finish it and get in front of investors and lenders. Use this feedback to see if your plan really needs the additional perfection.

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