

THE TEN BIGGEST “BUSINESS PLAN” MISTAKES

By Cliff Ennico

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In any given year I look at hundreds of business plans from entrepreneurs and business school students across the country. While the businesses are “all over the place,” ranging from basic retail and service businesses to advanced technology concepts bordering on science fiction, the authors of these plans keep making the same mistakes over and over again.

Here are the 10 biggest mistakes.

Assuming that “everyone” is a potential customer. Your customers are not “men and women between the ages of 13 and 75”. The market for any product or service is quite limited – even a cure for cancer will appeal mostly to cancer sufferers and people “at risk” for the disease -- and small companies generally do best when focused on “niche” markets.

Not understanding your customers. Why will your customers buy this product or service? What are the real needs, fears and passions they feel that will motivate them to buy? People don’t always do the right thing, make intelligent choices, or do what they say they will do. When reading your business plan I need to be convinced that real people – people I know, with all their faults and imperfections – will actually shell out their hard-earned cash for whatever you’ve got.

Thinking you have no competitors. If you truly think there’s no one else out there, you are either lazy or delusional. There may not be any “direct” competition for your product or service, but I will bet my bottom dollar there are:

- “indirect” competitors (someone looking for a quick, cheap lunch can order a pizza or Chinese takeout, so those two restaurants do compete even though their menus look totally different);
- “big box” retailers and franchises that offer similar products or services on a much larger scale; and
- new products, services and technologies that could render your idea obsolete.

Neurotic people see competitors behind every bush, which is why neurotic people often make the best entrepreneurs.

Not understanding your “competitive advantage.” How will you beat the crap out of your competition? Why is your product or service better, more desirable, more likely to succeed than theirs? Are there barriers to entry (such as a patent or high startup costs) that will keep competition at bay for a while and give you the chance to grow? It isn’t enough to offer a “me too” product or service (if I see another “find the cheapest martini within a 10-block radius of where you are” smartphone app, I will scream). You’ve got to have a gimmick, and I’ve got to be convinced you will win. Or at least stand out.

Underestimating your startup costs and the “time to breakeven”. After estimating your startup costs, double them. I’m serious. There are hidden costs in every business, and costs you overlook until it’s too late. Build a “fudge factor” into your cost projections, and be sure to include a generous marketing and advertising budget. Be realistic about your revenue projections – it will always take longer than you think to generate sales. If it will take more than 12 to 18 months for your business to “break even” (become self-sustaining because operating revenues are covering all of your operating expense each month), investors will be scared off.

Offering your investors the wrong deal. Angel investors and venture capitalists will not buy stock in a “personal business” – a basic retail or service business having a primarily local market. Such a business should be seeking loans from local banks, friends and family members. Likewise, don’t offer voting common stock to investors – they should get preferred stock, nonvoting common stock, or convertible notes. If you have to ask why, you don’t know what you are doing.

Not having an exit strategy for the business. Businesses don’t last forever. Tell your investors how – and how soon – they are likely to get a return on their investment, or their money back with interest. If it will be longer than five years, have a darn good reason why.

Assuming your company will go public. Initial public offerings (IPOs) are quite rare, even in bull markets. Only a handful of companies in each thousand will “go public.” The vast majority will sell out to bigger companies, or merge with them (if they don’t fail first). Identify the exact companies in your industry you think will acquire your company, and why.

Not discussing your business risks. Investors can be litigious. Not discussing your business risks, and offering strategies for dealing with the most likely ones, invites them to sue you because “you didn’t tell me that could happen.” Always discuss laws and regulations that affect your business, and have your attorney look at your “risk factors” section, because lawyers are really, really good at spotting risks you haven’t thought of.

Failing to “tie it all together.” I see too many business plans with sections that contradict each other, or an “executive summary” that is not supported by the sections that follow. Before sending out your plan, re-read it one last time and make sure everything ties together.

At least before you send it to me.