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Business plans just a guideline

Investors really want to know if you can run the show

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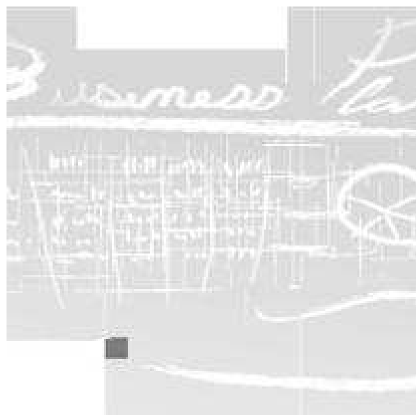

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(See hardcopy for Illustration)

Any business looking for financing today receives the standard advice to draw up and submit a business plan. Governments demand it for grants, bankers want it for loans, investors want it to determine what multiple you are going to return to them down the road.

There is an entire industry, to which I belong, surrounding this elementary chore. Business groups and business schools stage contests that award large sums of money to businesses with the "best" plan. Countless entrepreneurial training programs focus on the creation of a plan as a key prerequisite to starting a business; reams of books and software will walk you through the business planning process; an army of consultants will help you design a "winning" plan.

So entrepreneurs, managers and board members sweat buckets, expending vast amounts of energy to get their business plan perfect so lenders or investors will cough upmuch-needed funding.

What they invariably focus on is the numbers. Because numbers are a universal language in business, the reasoning is that should be where all the work goes. So every business plan is accompanied by three to five years of cash flow statements, income statements, balance sheets, sales projections, expense accounting, operational cost accounting statements and any other numbers that might make the plan look good. Then planners will jazz them up with great graphics, hoping that will make them look even better. And, frankly, much of that energy is misdirected.

Of course, you need to create financial projections: Any business that hasn't looked at future expenses, revenue, and profits is likely to fail miserably. But let's be real: Most financial projections are generally shots in the dark. Anyone who has ever gone semi-blind putting together spreadsheets that forecast revenue and costs five years out can attest to that.

And often the numbers aren't of the right type. The plans will project rosy sales and revenue, but have not costed out what it's going to take to create those numbers. Or they will focus much of their expenses on something that might be inappropriate for their type of business.

I recently audited a business plan for a manufacturing operation that aimed to create a fashion accessory. The designers knew their industry, knew their product, and knew the per-unit costs and the pricing that would be required to generate profits.

But their marketing plan was off base. They had accounted for sales, but failed to recognize the highly competitive business space, which dictated any new entry required a lot of marketing, for which they had not budgeted. Furthermore, the marketing they budgeted for was traditional, expensive, and unsuited to their target market. Although they had put in a lot of time trying to please the financial types, they had not considered their business as a holistic enterprise involving many management functions.

While they demand them, most business plan assessors know financial projections are really just a wish list, a snapshot of the future.

Venture capitalists often ascribe only 10% of their assessments of business plans to financial projections because they know they're inflexible, rarely accurate, and often completely unfounded.

So why are business plans so crucial? Each investor has particular reasons, of course: Venture capitalists use plans as a filter to search for promising businesses that fit their investment goal; lenders want to be sure you can pay back their loans; granting bodies want to ensure their money will accomplish what it's supposed to.

The bottom line for most "funders" isn't really money. The best of them want to see if you understand your business concept and what it will take to make it work. They want to know if you understand the risks that lurk out there. They want to know if you have scenario plans and/or other flexibility mechanisms so you can adapt if something goes wrong. They want to be sure you've thought the whole thing out in detail so you won't be knocked silly when the inevitable surprise happens.

Especially, they want to be sure you have a clear vision for your business and know what it takes to get there.

Investors aren't really interested in how well you can plug numbers into a spreadsheet. They want to know if you can manage a business enterprise.

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