Why 93.7% of Business Plans Fail?

Compiled from years of experience consulting to entrepreneurs, business owners and corporate managers, this report identifies the key reasons why most business plans fail.

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Introduction

The vast majority of business plans fail. This is a true, although unfortunate fact. Not only do 93.7% of business plans fails to raise capital, but even when they do, according to multiple sources, the vast majority of these businesses fail:

- Dun & Bradstreet statistics show that 88.7% of businesses fail
- U.S. Small Business Administration data shows that 71% of businesses fail within 10 years
- The National Venture Capital Association (NVCA) reports that 88.3% of venture backed companies failed to reach IPO or M&A deals in the past four years

What is causing companies' business plans to fail to raise capital and/or achieve success? Below are the top reasons we have found based on our vast experience completing over 1,500 successful business plans in addition to numerous conversations with entrepreneurs, venture capital firms, banks and other investors.

Not Including Successful Companies in the Competitive Discussion

Too many companies want to show how unique their venture is and, as such, list no or few competitors in their business plans. However, this often has a negative connotation to investors and/or lenders. If no or few companies are in a market space, it implies that there may not be a large enough customer need to support the venture's products and/or services.

In fact, when positioned properly, including successful and/or public companies in a competitive space can be a positive sign since it implies that the market size is big. It also gives investors the assurance that if management executes well, the venture has substantial profit and liquidity potential.

Over-Complicating the Message

Believe it or not, after reading the first page of most business plans, investors often do not understand the business in which the company is operating! This is particularly true when a company is involved in a complex, highly technical business. It may seem obvious, but it is critical to remember that investors cannot invest in what they do not understand.

Here is one extremely simple idea that unfortunately most business owners don’t leverage: relate your business to a successful existing business. For example, if you plan to offer an online book club membership, say that your company is like Netflix, but for books. Anyone will get that concept right away. Or maybe your company is a Hollywood-themed dry cleaning chain; if so, say your business is the Planet Hollywood of dry cleaners.

Not REALLY Knowing and Serving Your Customers

If you’re not already thinking this way, consider the fact that your customers are marketing geniuses! They know precisely what they want. It is your job to find out what that is and give it to them.

Having clear answers to the following three questions is almost always the difference between a successful and an unsuccessful business?

1. Who specifically are your customers? The more detail the better!

2. What do your customers REALLY want?

3. How is your company fulfilling this customer need? Are you serving this need in a way that no other firm is? Are you fulfilling this need in a manner that will get customers to keep doing business with you and continue to pay you more and more money over time?

Focusing Too Much on the Future

Investments and valuations for companies are based on a firm's projected future performance. However, the best indicator of future performance is past performance, or a company's past track record. Business plans must show what milestones and accomplishments a company has achieved. Past success in achieving goals gives investors the confidence that the team will execute in the future.

Not Tailoring Management Team Biographies to the Venture's Development Phase

The Management Team section of your business plan should include biographies of key team members and detail their responsibilities. These biographies should be tailored to the company's stage since different skill sets are needed to launch, grow and/or maintain a company.

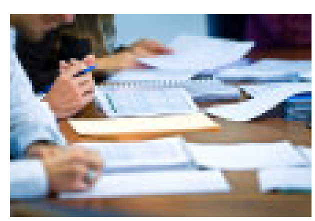
A start-up company should emphasize its management's success launching and growing ventures. On the other hand, a more mature company should emphasize how team members have successfully operated within the framework of larger enterprises. Without doing this, your business plan will not be as compelling as it needs to be.

Asking Investors to Sign a Non-Disclosure

Most investors will not sign Nondisclosure Agreements. This is because a business' strategy and/or concept are typically not confidential. It is possible that a key partnership is confidential, for example, but for the most part the execution of the strategy and concept is what will make the company successful. If the concept and/or strategy must remain confidential, this often implies that there are no barriers to competitive entry. If a competitor or host of competitors can quickly copy the concept, then the business model is probably not sustainable.

On the other hand, proprietary technology is confidential. The business plan should not discuss the confidential aspects of the technology but should discuss the benefits of the technology and how these benefits fulfill a large customer need. A serious investor will review the actual technology during the due diligence process. A discussion regarding signing a Non-Disclosure Agreement would be appropriate at this point.

Indiscriminately Incorporating Investor Feedback into Your Business Plan



Investors, like the rest of us, have different tastes. One investor may love a concept and/or business plan while the next may hate both. It is important to understand this as business plans are working documents and are always undergoing iterations.

Management teams must not rush to incorporate each potential investor's comments. Instead, have several investors, partners and other business colleagues review the plan and provide feedback. Incorporate common concerns and probe other comments to determine if they are valid.

Stressing First Mover Advantage

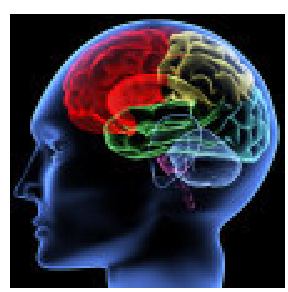
A business plan must include strategies that demonstrate the venture can and will build long-term barriers around its customers. Simply claiming a first mover advantage is not compelling in today's funding environment.

The methods through which the company will retain customers should be detailed in the business plan. Such methods could include implementing customer relationship management (CRM) tools, building network externalities (e.g., the more people that use the product or service the harder it is for a competitor to penetrate the market), ongoing value-added services, etc.

Not Getting Inside the Heads of Your Investors

Most entrepreneurs and business owners fail to understand that business plans are marketing documents; they market your business to investors. As such, the plan's goal is not simply to present an overview of the business opportunity.

Rather the goal is to sell the reader on why they should invest in the business. As is the rule in any other type of marketing, the business owner must first understand the needs of their customers. So, you must ask yourself, with your type of business, what is the investor seeking? Patents? First-mover advantage? A rapidly growing market size? Etc.



The savvy entrepreneur will start their business plan by figuring out what key points will get any investor excited about their business, and then figure out which of those points can be supported by market research and the company's infrastructure and successes to date.

Want to quickly attract investors? Find investors that have a penchant in investing in companies like yours and give them 5 bullets regarding your opportunity that they can't refuse to learn more about. We call these "teaser" bullets.

For example, even though you don't know anything about the SZOITS market (since it's not a real market), would you be interested in learning about this opportunity:

- Company is leader in the SZOITS market; a market with revenues of $750 million this year and expected to grow to $3.7 billion within then next three years.
- The Company's president is one of the world's leading authorities in the SZOITS market with six patents in the space; he has also been asked to present at all major world conferences.
- The Company's technology provides critical advantages in cost, time and energy consumption versus current market products.
- The Company has formed key strategic alliances/partnerships with seven multi-national corporations.
- Six Fortune 500 companies are currently beta testing the company's products, three of which have already placed initial orders.

Your business plan needs to stress your key selling, or teaser, points on the FIRST page. While this is an unorthodox way of presenting certain plans, such as plans prepared for bank lenders which often include information on the company's mission, objectives, etc., these teaser points grab the attention of investors and lenders, and commit them to reading and learning more about your company.

Defining the Market Size for a Company Too Broadly

Defining the market size for a venture too broadly provides little to no value for the investor. For example, mentioning the size of the U.S. healthcare or global electronics markets is generally extraneous since no company could capture a meaningful percentage of either market. Rather, a more meaningful metric is the relevant market size, which equals the company's sales if it were to capture 100% of its specific niche of the market. Defining and communicating a credible relevant market size, and a plan to capture a significant share within this market is far more powerful and believable to investors.

Making Financial Projections Too Aggressive

Many investors skip straight to the financial section of the business plan. It is critical that the assumptions and projections in this section be realistic. Plans that show penetration, operating margin and revenues per employee figures that are poorly reasoned, internally inconsistent or simply unrealistic greatly damage the credibility of the entire business plan.

In contrast, sober, well-reasoned financial assumptions and projections communicate operational maturity and credibility.

By accessing and basing projections on the financial performance of public companies in their marketplace, ventures can prove that their assumptions and projections are attainable.

Not Understanding your Break-Even

What is the most important number that every entrepreneur and business owner needs to have on the tip of their tongue? Their break-even numbers. Specifically, a business owner needs to fully understand how much money and how many months it will take to reach break-even (defined as the time when revenues cover costs).

Without understanding this, the business becomes too risky for both the entrepreneur and prospective investors.