Copyright © 2008, Michael D. Jenkins
All Rights Reserved

Eight Ways NOT To Write a Business Plan

Creating a good business plan is often a crucial requirement for any small business that needs to raise substantial amounts of capital, either in the form of loans or equity capital (common or preferred stock). Every day of the year, thousands of business plans are being generated by small businesses and submitted to prospective lenders or investors, most of which, unfortunately, are amateurish efforts that are quickly filed by the recipients in the "round file." A lot of good paper, not to mention time and effort, goes to waste.

Author Michael D. Jenkins, a CPA and attorney who has authored "Starting and Operating a Business in California" and similar books for every other state since the early 1980's, has some advice to offer on some of the worst errors you should avoid when creating your business plan. Doing so should greatly improve your odds of having your business plan seriously considered and read, and of winning the financing you are seeking to obtain through such a document.

Here is his "Not To Do" list for writing a business plan:

- 1. **Don't write a lengthy tome.** More is rarely better, when it comes to writing a business plan. Most of the people who will be reading your business plan are busy people, who have to get through a lot of such submissions, and they aren't likely to have the patience to wade through a 50- or 60-page document. The trend these days is to write a tightly edited, cogent document that is perhaps 10 or 12 pages in length, just long enough to make your key points. Your "executive summary" (about a page) may be the only part that gets read, unless it is well done, so be sure it is well-honed and polished, and makes it clear what your competitive advantage will be -- that which gives you a good shot at making high returns on invested capital -- rather than merely showing that it is a good, hot market you're entering, and that you are just another "me-too" business going after that market, with no particular competitive advantage.
- 2. **Don't do a "cookie-cutter," fill-in the blanks plan, if you want yours to stand out from the crowd.** Most lending officers or venture capitalists who will read your business plan see a lot of such plans, and can easily spot a "canned plan," most of which will end up unread, in a local landfill. You need to go through the intellectual exercise of doing the research, and laying out in writing,

in your own words and using your own thought processes, how you will succeed with your business. One additional advantage of doing so is that you may come to realize that your planned business may NOT work out, for various reasons, once you've parsed it all out -- which may save you a great deal of grief (and money) once you realize it.

- 3. **Avoid naive assertions.** If you're going to tout some "secret, unique" process that you and only you have, it better be a real show-stopper. Otherwise, it will sound rather foolish to a sophisticated money runner. For example, you might want to assert in your business plan that your cookie company's chocolate chip cookies are made from a "secret and unique" recipe. Well, maybe. But even Coca-Cola, which has kept its soft-drink formula more secret than the Manhattan Project for a century, doesn't have a totally "unique" product--as any Pepsi drinker, who may prefer the quite similar taste of the very competitive Pepsi-Cola, will be quick to point out to you.
- 4. **Avoid using overblown cliches or claims.** When discussing your financial or market projections, don't try to label them as "conservative estimates" or use terms like "guaranteed profits." Remember that your audience is not likely to be unsophisticated "widows and orphans." Bankers and equity investors tend to be hard-nosed realists. They know that if you think you can reasonably predict a million dollar a year profit by Year 3, you are unlikely to do projections that show only a $200,000 profit in Year 3 and then label it as a "conservative estimate." The cynics know the writer of such a business plan is more likely to project $1.5 or $2 million profits by year three in that case, and call THAT number a "conservative estimate" of profit levels that can support the $10 million loan they are seeking. Let your numbers speak for themselves -- better to "walk the walk, than talk the talk." Puffing won't impress your target audience.
- 5. **Don't think of your business plan as just an application for financing.** Some of the most successful businesses around develop a business plan and use it not only as a tool for obtaining financing (often putting out a condensed version for lenders or investors), but also use it as an ongoing blueprint for their business operations and aspirations. Those who do so update it on a regular basis, to help maintain their focus on their goals. This may mean you will create a rather long, detailed business plan for internal use, and crop it down to a condensed version for presentation to outsiders.
- 6. **Don't wait until after the business is started to begin work on your business plan, if at all possible.** Ideally, get started on it 5 or 6 months before the business is ready to open. Once you have started up the business, you will be hard-pressed to find the time to do a thorough job of researching and writing a business plan, as it will often take 50 to 150 hours of your time to do a proper job of research and writing it up. Once your business is up and running, you will probably be working long, hard hours, to keep the business afloat, meet your payroll, put out fires, and keep your customers happy and your creditors at bay. If so, you will won't have much spare time to do the necessary work involved in thinking through and creating a first rate business plan. You will probably have to resort to using a "canned" plan or hiring a ghost writer who doesn't really understand what your business about to concoct the plan, rather than doing the

work yourself and creating a document that shows you really have a grasp of what can be accomplished by your enterprise and how you will do it.

- 7. **Don't work in a vacuum.** A good business plan is not simply a document you can sit down and write in a room by yourself in a couple of days. You need to get input from your business partners or associates, potential customers, and others. In addition, once you've completed the plan, don't "publish it" until it has been vetted by other knowledgeable people, such as the above, or your friendly counselor at the local S.C.O.R.E. (Service Corps of Retired Executives) chapter. Someone with a little gray in their hair can often be very helpful to you in pointing out flaws in your presentation or your logic. Better that they find the flaw in the plan than some hard-eyed bank lending officer or venture capitalist, who would quickly file your business plan in the trash can.
- 8. **Don't forget to build in and explain an exit strategy.** You need to be able to demonstrate clearly with your cash flow projections how you will not only turn a profit but that you will also generate ample cash flow to pay off the loan you are seeking, on a timely basis. Even if you are seeking equity financing (such as convertible preferred stock), instead of a loan, you need to be able to lay out a plausible "exit strategy," since everyone, including equity investors, wants to know how they'll get their money out, at some point. This, of course, means profits and cash flow will have to be adequate to cash out equity partners within a reasonable time frame. The hope of "going public" someday or getting another round of financing to cash out today's investors or lenders will usually not be too attractive or thrilling to anyone who is being asked to provide you with risky startup financing. Cold, hard cash flow is always preferable to wishful thinking about going public.

About the Author: The author of the Small Business Advisor software and the companion "Starting and Operating a Business in ...(state)" e-books for each of the 50 states and D.C. is Michael D. Jenkins, Attorney & CPA. Mr. Jenkins, Harvard Law graduate, has practiced for a number of years each as: an economics and financial consultant with the national consulting firm of Economics Research Associates; a tax attorney with a large San Francisco law firm; a CPA and tax supervisor with a "Big 4" CPA firm and as a tax partner in a San Francisco Bay area CPA firm. A self-taught programmer, he is also the owner and founder of Ronin Software, founded in Redmond, Washington in 1990 and now located near St. George, Utah, publisher of the "Small Business Advisor" and e-book series and other business-related software.

Web site: http://www.roninsoft.com
