

## **WHEN IS a business plan THE BUSINESS PLAN?**

By Frank Demmler

One thing that all aspiring entrepreneurs are told is that they have to prepare a business plan. In many cases, you will look for something that will guide you through the process. Books, software packages, online guides, tapes and DVDs, sample plans, and/or seminars are just some of the many sources you might turn to for such direction.

Most of these are very good at explaining the “what” of a business plan – what it should contain; what should go where; what should financial statements look like; on and on. Many of them attempt to explain some of the subtlety of the art of the plan. In most of those cases, in my humble opinion, first-time entrepreneurs don’t have the context and sophistication to appreciate what the authors are trying to say.

I am going to attempt to give you a different way of looking at your business planning efforts so that you can assess where you are compared to where you need to be.

### **THE ROLE OF THE BUSINESS PLAN**

The business plan has two primary purposes – to help you determine what kind of business you want to build and how to go about it; and to attract the necessary resources (people, equipment, contacts, mentors, as well as money).

That order is important, by the way. First and foremost, you must plan for the business that YOU want to create. You should not create a plan primarily for the purpose of raising money, which is often the primary business planning motivation of many first-time entrepreneurs, current readership excepted.

OK, let’s get on with it. It is my opinion that business plans need to go through nine major drafts before they can be considered a real BUSINESS PLAN.

#### **DRAFT #1: THE CORE DUMP**

Presumably, your desire to start your business has been gestating within you for some time. During that time, you’ve thought about the business concept. You have probably clipped some articles. You may have written notes to yourself about various ideas you’ve had. You’ve talked to a number people to get their feedback.

Now it’s time to do something about it and you know that the first step is the business plan. You buy one of the guides and off you go. The first draft of your plan will be primarily organizing everything you’ve already compiled according to the structure provided by your guide.

#### **DRAFT #2: THE BEST OF ALL POSSIBLE WORLDS PLAN**

Your first draft will have lots of holes and inconsistencies. In the second draft, you will eliminate them so that the plan reads well and appears to be complete. In terms of effort, this draft will be the most intense. You will need to go to many sources of secondary market research to compile market statistics and do competitive analysis. You will go

through the financial forecasting process in excruciating detail. The resultant numbers look reasonable and attractive, and reflect a need for an appropriate amount of capital.

This is a lot of hard work. It takes a lot of time. You will be proud of your work product. It reads well. It makes a compelling case. It contains what it should, where it should, according to your business planning guide. You will think this is The Plan. It's not.

### **DRAFT #3: REALITY CHECK**

It's understandable why you would want to stop at the second draft, after all the effort you've put in. But, in your heart of hearts, you know that there were assumptions you made that were nothing more than guesses. You know where you substituted logic for knowledge. You know where you "fudged" some numbers to make the financial statements come out the way you thought they should.

If you were honest with yourself (and if you are going to be a successful entrepreneur, you must always be honest with yourself), your second draft is not what you know it could be, and should be. As much as you'd like to stop now, you know that you must press on.

The primary problem with many second draft plans is that they have not touched the real world. The real world is not always rational. The real world is a little messy. It doesn't quite perform the way you think it should. The "best" course of action is often not the course of action that will actually work. The real world is composed of people, individuals who have a tendency not to be predictable.

You need to talk to potential customers. Will the "dog eat the dog food?" Do they feel pain? Will your offering remove that pain? Is it a "gotta have"? What features do they really value? What features are they indifferent to? What features are missing? What would they pay for it? How would the customer expect it to be sold to them? By a direct field salesperson? Through existing distributors or representatives?

You need to talk to people who have "been there, done that (or better yet, doing that)." What are the successful sales strategies that will work for a start up company? How long will it take to get regulatory approval? Do you have a "snowball's chance in Hell" of raising the money you have calculated that you will need?

The third draft of your plan will reflect the culture shock that you've experienced as person after person tells you what really happens when a company such as yours, a team such as yours, tries to create a business.

A natural initial reaction will be to defend your plan. You've worked so hard. You're drinking your own Kool-Aid so-to-speak. You want the real world to conform to your plan, not the other way around. But once the defense mechanisms recede, and you "get it," you deconstruct your plan to fill in the real world substance. This plan will no longer be complete and logically consistent. Entire sections will have been eliminated because you know now that what you wrote isn't valid.

This is an enormous hurdle, but if you get beyond it, your chances of succeeding have increased by several orders of magnitude.

## **DRAFT #4: EMBRACING THE REAL WORLD**

This is a fun and liberating step in the process.

First, you now know that you don't need to act as if you know everything. It's not expected.

Second, you've learned that individuals are available to you and they will share their experiences and resources with you. They will respect you for your efforts. They will be empathetic to your needs. They only got to where they are because people helped them and therefore, they feel the obligation to help their successors (sometimes when they're only 18, 12, or even six months removed from doing what you're doing now).

During this stage, you will get input overload. You'll find that many (all?) of the issues you are investigating don't have a single, "right" answer. The individuals with whom you talk will likely precede their comments with, "It depends, but..." They will then give you their personal opinions based upon their experiences.

You will often find conflicting advice from people in the know about certain specific topics. Is one right and all the others wrong? Absolutely not! Consider the source. Take a look at the execution. Try to understand why both may be "right" approaches for each INDIVIDUAL. How do you compare to them?

My rule of thumb:

- 30% of what an experienced person tells is very important.
- You should avoid the remaining 70% like the plague.
- Your job is to figure out which is which.

## **DRAFT #5: THE PLAN GETS SOUL**

This is the exciting step in the process. You've gotten good advice. You now understand what happens when the "rubber meets the road." You "get it."

Now you've got to synthesize and integrate all that you've learned into YOUR PLAN. You evaluate the conflicting advice you've received to understand the context of that advice and whether it is or is not appropriate to you and your company. You DECIDE what's right for you. You look for the inconsistencies in this emerging plan. You dig down to understand their sources, to evaluate their importance, and you resolve them.

You become increasingly confident in the plan that you are developing. You engage your mentoring network in debate about critical topics. This time, though, it's not your intellect versus their experience (i.e., after the second draft), but it is between you, the wizened soon-to-be entrepreneur, versus the seasoned executive. You can hold your own in these discussions because you know in your gut that what you want to do is the right thing for you and your company. You are looking for flaws and these debates may be heated, but they are done on a peer basis.

Several critical things are going on as you prepare this draft.

Your confidence in your plan has moved from your head to your heart and gut. You are emotionally engaged in your business.

You understand the real world of launching your business and you know what you should do. You also recognize that these decisions are appropriate for this moment in time, and that as reality hits you and conditions change, you will need to adjust your plan accordingly. Blind adherence to a plan that's not working is foolish. Don't let your ego get in the way of doing what needs to be done.

Perhaps most importantly, you conduct yourself as the CEO of a start up enterprise. You have vision. You have confidence. You know that you are on the right path and people will see that in you.

This is The Plan. It is what you want to do and how you want to do it. You are confident and passionate about the business opportunity reflected in its pages.

### **DRAFTS #6 – 9: PACKAGING, PACKAGING, PACKAGING, PACKAGING**

Now that you know what you want to do, you need to package the plan to attract the resources that you will need. Each of these plans (#6-9) shares two common traits.

First, each “oozes” the substance of an exciting business. [I'm the only one I know who tries to explain it this way, but I haven't found a better description or metaphor.] When someone looks at the plan, it's obvious to the reader that this is the real deal. It's not an intellectual exercise by a bright person who has ferreted out a market opportunity. It is the work product of a passionate entrepreneur.

Second, it is the same plan in each case, BUT what's presented and how it's presented is dependent upon its audience.

Banks, angels, and venture capitalists may be looking for certain financial things, so you need to present your business proposition to them in a certain way. Remember, providers of funds will provide those funds to you if you can convince them that you will return their capital to them along with a return on their investment consistent with their charter and risk profile. At the extreme, your business is nothing more than a black box to them that going to change a little bit of money into a lot of money. You are selling an investment opportunity, not your business. That's a subtle but critical decision.

Your plan will be a recruiting tool for management team members. That packaging of the plan has to appeal to them. Can they play a significant role in the company achieving its plan? Is the potential of the plan exciting? Will it be financially rewarding? Is it worth the risk of joining during its infancy when compared to their current circumstances?

### **SUMMARY**

Conventional business planning guides make it difficult for first-time entrepreneurs to evaluate their plans objectively. The process presented here addresses this issue more directly. Rather than focusing on the contents of the plan, it asks the entrepreneur to assess “soul” of the plan. Only the entrepreneur knows what he has put into the plan, so only he can know if it's The Plan.

### **ADVICE TO ENTREPRENEURS**

- Resist the urge to stop at the second draft of your plan.

- Be honest with yourself.
- Plan the business to be what you want it to be.
- Make sure your plan reflects the real world.
- Intellectual purity, in the absence of real world confirmation, is not the foundation of a successful business.
- Package the plan, after The Plan has been developed, to appeal to the audiences to which it is directed.

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