7 Step Start-up - Step 4

Business Plan Mistakes to Avoid

Around 80 per cent of bids to raise cash for business fail, often due to lack of preparation for investor meetings. A business plan will help you to answer questions about where the business is going and how funds will be invested. It will detail financial forecasts, identify your strengths and weaknesses and act as a good summary of your intentions for anyone outside the business.

This guide from Smallbusiness.co.uk and Alan Gleeson, managing director of Palo Alto Software, points to some of the common pitfalls of producing a business plan.

Unrealistic financial projections
A key area business plan readers will focus on is the numbers. They will concentrate on the projected income statement or profit and loss. The fact that numbers are projected does not mean that those figures can be included without due care. They need to be credible, defensible and consistent.

Of course forecasting is not an exact science, but they must show an ability of the company to generate free cash flow so that the business can be run profitably, while servicing their debts at the same time.

All costs should be recorded, including salaries to owner managers who run the company. No investor will be prepared to fund a business where the projected salary payments are excessive. A business plan will need to include everything from break-even projections to proposed return on investments and one management teams will have to be confident in these subjects and talk through them convincingly.

Lack of clarity
A business plan needs to not only describe an opportunity, but also detail how that opportunity can be exploited profitably, and demonstrate the company’s ability to deliver what is required.

In recent years there has been a significant increase in plans that are inaccessible to the average reader because they are couched in technical jargon and unfamiliar terms. If the reader of the plan cannot fully grasp the prospective business, they will not invest.

Many business plan recipients will only scrutinize the Executive Summary and financials, using these to decide whether to read further or not.

No clear route to market
Many entrepreneurs are inherently product-focused, concentrating their energies on 'the idea' to the exclusion of other important elements, such as how they intend to access their customer base.

The business plan must include a comprehensive and credible analysis of how the company intends to secure access to their target market in a cost-effective way. Knowledge of who the customer is and how they buy is vital.

Information from: http://www.knowledge.hsbc.co.uk © of HSBC.

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Bad cash flow management
Many businesses fail not because they are unprofitable, but because they ultimately become insolvent – unable to pay their debts.

The start-up phase of a business is a time when cash flow is under stress. A well-structured business plan needs to reflect reality with likely losses in the first months of trading being expected and financing provisions, such as overdraft limits, put in place in advance.

No evidence of real demand
Prospective investors will not want to invest at the very start where the risk is highest. Are there sales or firm orders in place? Have some sales occurred already? If not, why not?

Unless there is verifiable demand for the idea, the risks grow, particularly if the initial start-up or investment costs are high. Is it possible to test the idea in real time, perhaps by identifying comparable businesses in other geographic areas? Although for some investors, firm orders or evidence of sales will still be the level of proof required.

Playing down the competition
There is always competition. Yet the number of times the phrase "there are no main competitors" appears in plans is considerable. No matter how unique the proposition, there will also be some other business in the same area. If competitors can not be identified then the search has simply not been diligent enough. You will then need to show what differentiates you from the competition – your unique selling point (USP).

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