

# What to do before you write a business plan

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By John Mullins

Planning is important. But results are what count. And who delivers the results? Entrepreneurs. Entrepreneurs like you can change the world. Why, then, is there so much fascination with business plans in today's entrepreneurship community and in the innovation units of big companies, too? Why are there dozens of books titled something like 'How to Write a Business Plan'? Why are there numerous software packages to automate the business planning process? Why do most leading business schools offer courses in which teams of students write business plans for proposed new ventures?

## The business planning conundrum

Unfortunately, the evidence indicates that the vast majority of business plans raise no money. Of those ventures that are financed, many if not most will fail. What's wrong with this picture?

At least three things are wrong here. The first thing that's wrong is that most business plans are written for opportunities that are fundamentally flawed. Why write a business plan for a no-hope opportunity? It's a waste of entrepreneurial time and talent. Your time and talent.

What's also wrong is that the inherently persuasive nature of business plans, a principal purpose of which is often to raise money, forces their proponent entrepreneurs into the 'everything about my opportunity is wonderful' mode. Alas, the likelihood – for most opportunities, even the attractive ones – is that



everything is not wonderful, but there are one or two things that are sufficiently wonderful to outweigh those that are not.

In the same vein, the aspiring entrepreneur who prepares and pitches an 'everything is wonderful' business plan – like the ones many books and software packages describe – risks his or her credibility with investors, who know the real risks that entrepreneurial ventures entail. This naiveté makes it harder, not easier, to raise the money that's

needed. Worse, notwithstanding a risk section in which the typical plan papers over what might go wrong and explains why it won't, such a positive slant risks blinding the entrepreneur to the very real risks that conspire to bring most entrepreneurial ventures to their knees.

The third thing that's wrong is that most business plans are focused on the entrepreneur, his or her idea, and why it's wonderful. They are 'me focused' or 'my idea focused'

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rather than customer focused. People do matter, true, but investors don't really care very much about you and your idea, at least not at the beginning. What investors care about is solving significant customer problems or needs that offer significant profit and growth potential. If you have a solution to such a problem, then their ears will perk up. If you've shown that you can deliver results in solving this kind of problem, you'll have their undivided attention. Thus, the importance of people lies in the context in which they operate. Set the context first. Let the people story – of you and your entrepreneurial team – close your sale.

## Is there a solution?

I hope I've convinced you that the widespread focus on business planning in today's entrepreneurial culture is, sadly, misplaced. "Is there a solution," you might ask. Indeed, there is. Instead of diving into business planning mode, step back and ask yourself whether the opportunity you have in mind is genuinely attractive.

That's what an aspiring entrepreneur named Cassian Drew did before embarking on a plan to sell climbing wall hardware and exercise programmes to fitness facilities. He spent a summer examining his opportunity and, in the process, learned exactly how fitness operators assess the economics of the gear they acquire. Alas, it quickly became clear that the economics underlying what he

## The Customer-Driven Feasibility Study

1. Executive summary that summarizes what follows (tell the reader(s) – you and your team – what you are going to tell them)
2. Micro-level market assessment
  - Target market's pain identified; compelling benefits of your solution identified, with evidence that those in this segment are willing to pay
  - Target market segment, size, and growth rate
  - Options to grow into other segments
3. Macro-level market assessment
  - Overall market size and growth rate
  - Macro trends analysis to assess future market growth and attractiveness
4. Macro-level industry assessment
  - Five forces analysis: Is the industry attractive?
  - Likely changes therein going forward
5. Micro-level industry assessment
  - Proprietary elements?
  - Superior organizational processes, capabilities, or resources identified, that are not easily duplicated or imitated?
  - Economic viability of business model established
    - Revenue forecast
    - Customer acquisition and retention costs, and time required to obtain a customer
    - Gross margins
    - Capital investment required
    - Operating cash cycle characteristics
6. Team assessment
  - Team's mission, aspirations, and propensity for risk
  - Team's ability to execute on the critical success factors in this industry
  - Team's connectedness up, down, and across the value chain
7. Summary and conclusions (tell the reader(s) the key highlights of what you've told them)
  - Why is – or isn't – this opportunity attractive? On what one (or at most, two) domains do you rest your case?

**Exhibit** – Source: Excerpted from John Mullins, "The New Business Road Test: What Entrepreneurs and Executives Should Do Before Writing a Business Plan," London: FT/Prentice Hall, third edition 2010. [www.newbusinessroadtest.com](http://www.newbusinessroadtest.com) [www.johnwmullins.com](http://www.johnwmullins.com)

had thought to be a great idea just weren't going to fly. While he and his partner were well suited to the opportunity and the market was attractive – with booming interest in both fitness and climbing in the UK – there simply wasn't a business model that would work.

As Cassian Drew and countless numbers of entrepreneurs have learned, usually the

hard way, opportunities are best understood in terms of three crucial elements: markets, industries, and the one or more key people that make up the entrepreneurial team. The seven domains model articulated in The New Business Road Test: What Entrepreneurs and Executives Should Do Before Writing a Business Plan brings these elements together to offer a clearer way to answer the crucial

question that every aspiring entrepreneur must ask him- or herself every single morning: “Why will or won’t my idea work?”

The model offers a better toolkit for assessing and shaping market opportunities and a better way for entrepreneurs or entrepreneurial teams to assess the adequacy of what they themselves bring to the table as individuals and as a group. The model also provides the basis for what I call a customer-driven feasibility study that entrepreneurs, whether in nascent start-ups or deep in the bowels of an established company, might use to guide their assessments – before they invest precious time and effort in writing a business plan. (See the Exhibit)

of there being customers, there will be no investors.

Economic fundamentals: The feasibility study succinctly addresses the fundamental economics of the business, by identifying the key drivers of cash flow: revenue, customer acquisition and retention costs and timelines, gross margins, required capital investment, and the working capital characteristics of the operating cash cycle. If these drivers are satisfactory, detailed strategies – for marketing, operations, and financing – can probably be developed to make the venture economically viable, provided the market, industry, and team elements are sufficiently attractive. If they are not, there’s little point in wasting time developing such strategies.

First, researching and preparing a customer-driven feasibility study gives you a chance to opt out early in the process, before investing your precious time and energy in preparing a complete business plan. Thus, it can save weeks or months of time that might be wasted on a fundamentally flawed opportunity.

Second, for opportunities that do look promising, the feasibility study jump-starts the business planning process and provides a clear, customer-focused vision about why your proposed venture makes sense – from market, industry, and team perspectives, viewed independently and collectively. It identifies the customer pain, how you’ll resolve it, and the one or two domains that make the opportunity stand out. These factors become the drivers of your business plan.

Third, by ensuring that all aspects of the opportunity are examined, your analysis reduces your risk of entering a fatally flawed venture.

**The customer-driven feasibility study asks the critical questions necessary to satisfy the entrepreneurial team’s curiosity about the attractiveness of the opportunity itself, and makes it possible to answer these questions before developing the detailed strategy necessary for the completion of a business plan.**

## The feasibility study and the business plan: How are they different?

How do the seven domains model and the customer-driven feasibility study it delivers differ from what’s in a good business plan? To be sure, there is considerable overlap in the content of a customer-driven feasibility study and a business plan. And that’s actually a good thing. In fact, all of the analyses we advocate are essential, though not sufficient, for crafting a thoughtful, evidence-based business plan. So, what’s new here? What’s different from a business plan?

Customer focus: The feasibility study is focused on the customer. As Peter Drucker wrote many years ago, the purpose of any business is to win a customer. The feasibility study hones in on that purpose, one quite different than that of most business plans – to win an investor. Without the likelihood

Mindset: The customer-driven feasibility study asks the critical questions necessary to satisfy the entrepreneurial team’s curiosity about the attractiveness of the opportunity itself, and makes it possible to answer these questions before developing the detailed strategy necessary for the completion of a business plan. Thus its mindset is to ask (and answer) questions, not to sell the venture’s merit. In contrast, the business plan organizes the answers delivered by the feasibility study and goes on to develop marketing, operating, and financing strategies in an effort to sell the opportunity, in a sharply focused way, to investors and other stakeholders.

## Why bother?

“Are these differences worth the effort?” You might ask. Why shouldn’t you, as a would-be entrepreneur, simply skip the feasibility study and proceed directly to preparing a business plan?

## An open mindset is crucial

Asking and getting answers to the feasibility questions with an open mind – deliberately, objectively, and comprehensively, based on real-world evidence, rather than hopes or dreams – is an important first step that entrepreneurs all too often ignore. No car-buyer would buy a new car without a road test, and that’s a far less risky decision than the one you are about to make. A customer-driven feasibility study is the entrepreneur’s new business road test. Entrepreneurs who proceed without doing one ignore it at their peril!

## About the author

**John Mullins** is an associate professor of management practice at London Business School and author of “The New Business Road Test: What Entrepreneurs and Executives Should Do Before Writing a Business Plan,” third edition 2010. He is also co-author (with Randy Komisar) of the widely acclaimed “Getting to Plan B: Breaking Through to a Better Business Model,” 2009.