

## Common Business Plan Errors

Jeffrey A. Mazer  
Mazer Advisors, LLC

For a small business, creation of a business plan is one of the key elements that will help determine the success or failure of the venture. A business plan serves two purposes: a guide for developing the business and a document used to raise money.

If you do not need to seek financing for your business, your business plan can be less formal, but it should still be comprehensive, as it is the principal document that will guide the growth of your business. If you *are* seeking financing, your business plan becomes even more critical. In order to be taken seriously by investors, the plan must include certain key elements and must avoid common pitfalls.

Professional investors look at hundreds of requests for their money and they are quick to discard poorly prepared or incomplete business plans. With so many companies seeking their funding, why would they waste time on a business that fails to provide critical information or leaves them unable to accurately determine the merits of the investment? They won't. They will simply discard your plan and your hopes of funding with it.

To give your plan the best chance of being taken seriously, make your business plan as complete and professional as possible. By avoiding these common mistakes, you significantly improve your chances of obtaining financing and of successfully launching your product or service.

### ***AVOID THESE ERRORS:***

- 1. Lack of (or poorly written) Executive Summary:** Investors see hundreds of business plans and quickly reject most of them. For yours to cut through the clutter, it needs to grab an investor immediately. The Executive Summary is your best opportunity to make a compelling case for your business. Be sure to use the opportunity to its fullest.
- 2. No sustainable competitive advantage.** Investors want to see *reasons* for a new company to exist. Tell them *why and how* your business will succeed.
- 3. Ignoring the competition.** Not mentioning your competition doesn't help your case. In fact it hurts it. Your business has competition, no matter how unique you think your product or service is. Investors want to see the alternatives to your product and why customers will pick your product over others.
- 4. Numbers that seem baseless.** When looking at business plan projections, the first questions investors generally ask are, "Where do the numbers come from?" and "How did you get that number"? If the numbers don't add up, an experienced investor will see that.
- 5. Unrealistic projections.** Every business plan an investor looks at has "hockey stick" projections that show dramatic increases in sales; and no professional investor believes them. If projections promise rapid growth, investors will want to see support for your assumptions. Be realistic.
- 6. Unrealistic timing.** If you are starting a business, you need time to build the business, as well as to market and sell your products or services. Investors are suspicious of a plan that shows an unrealistic ramp-up period.
- 7. Unrealistic staffing.** Have adequate staffing built into your plan. Don't tell investors that you will do everything by yourself, unless you can back it up. Investors will tend not to believe you.

**8. Unrealistic pricing.** Don't tell investors that you have a better product and that you can undercut the competition's prices at the same time, unless you can back it up with hard facts. On the other hand, if you have a product for which you expect customers to pay a premium price, explain why they would.

**9. An inadequate marketing budget.** The best product in the world will be a flop if nobody knows if it exists. Investors will want to see that you have clear-cut plans to get your product or service known to the market.

**10. No exit strategy:** "In most cases, investors are interested in investments of 3-5 years that produce excellent returns and give them liquidity at the end of that period. Therefore, make sure your plan clearly lets them know *where* the investment return will come from, what *time frame* is anticipated, and *how* you plan to meet those goals. Including this information will go a long way toward ensuring that investors will seriously consider your proposal.

**11. Lack of information about you and your team:** Many investors say that they don't invest in a business; they invest in a management team. Give an investor reason to believe that your team is one they should support.

**12. Lack of detail on where the investment proceeds are going.** Investors want to know exactly *what* your company will be doing with their money. If your use of proceeds is something as general as "marketing", an investor will want to know specifically what that means. Is company management using marketing funds for a booth at a key trade show, or are they going to the beach for a couple of days to "brainstorm."

**13. Poorly prepared document/unprofessional presentation quality:** This may be more common than you think, and it's a big turn-off for investors. These types of errors include:

- **Lack of internal consistency:** Make sure your business name and description is consistent throughout your business plan. If you make a change, make sure the plan reflects that change throughout.
- **Blank spaces:** Investors don't want to see something that looks incomplete. If there are parts of the business plan that need more research, state that there are open issues, but make sure there are very few of them.
- **Typos:** Typographical errors indicate sloppiness and inattention to detail in your work, which will cause investors grave concern.

Don't risk your chance of success before your business can even get off the ground. In order to be taken seriously, a business plan must convince the venture capital investor that an investment in your company makes sense and will pay the kind of returns they are looking for. Capital is difficult to obtain under any circumstances and venture capitalists reject far more investment proposals than they approve. If you are starting a business, you believe you have an idea that has merit. Your job is to convince others in a compelling way. The best way to do that is by having an airtight business plan that provides sound information and avoids needless errors.

*Mazer Advisors provides expert financial and strategic consulting to companies in the consumer products sector. If you are interested in exploring your company's financial and strategic options, please give us a call.*

Mazer Advisors, LLC  
1526 Spruce Street  
Boulder, Colorado 80302  
**Phone: 303.413.8601**  
[mail@mazeradvisors.com](mailto:mail@mazeradvisors.com)