

## **Business Plans – Beware!**

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### **Optimism – the fuel of the entrepreneur**

Has anybody ever handed you a loosing business plan?

When you have new a venture in mind and are seeking investors, naturally an investment prospectus or business plan will need to be prepared. This document, the starting point for virtually any venture will show how the opportunity will be implemented, and moreover, how handsome profits will be forthcoming in very short order, and so distributed to those lucky "ground floor" investors.

One of the fundamental problems underlying the preparation of most business plans is that it is the venture champion who most often gets the task of preparing the document. Enthusiasm, positives "vibes", unbounded optimism and a winning feeling are the fuel that powers the writer. Unfortunately, these emotions "fly in the face" of objectivity, and only serve to ensure the writer prepares that "winning business plan".

It is the final page spreadsheet in the business plan that is usually the "clincher". This page quantifies the venture and spell out the financial returns in glowing and simplistic numbers. And what does the writer do in finalising the spreadsheet projections if the profits are not really big enough? Fiddle with the market penetrations, the scope of the market and perhaps the margins. Rest assured, pretty soon the result is that winning business plan.

Writers of such documents are not necessarily dishonest, probably far from it, more than likely they are just passionate. They know this venture will be a winner; they just need to convince the audience of investors so they too can benefit from involvement in this new and exciting opportunity.

Following from the above, it is not surprising that the reason for almost all business failures comes down to markets, you just don't sell as many "widgets" as you forecast in the spreadsheet. Clearly therefore, it is this aspects of any new venture that needs to be most closely scrutinised for that will be invariably be the reason for failure.

### **Understand what value means**

Marketing, the task of finding the fit between the company capability and the market is what successful business is all about.

What entrepreneurs often fail to understand when scoping a new venture is the simplicity of "value" and the "value proposition".

People purchase things basically because they see value for money. They believe their purchase will allow them to enjoy some benefit to at least the value, but preferably beyond the value, of their investment.

The value proposition, the simple equation that attempts to measure value received compared with the purchase price is fundamental to understanding markets. In the case of virtually any product where it is difficult to measure, and moreover quantify and communicate the value to the purchaser, making sales forecasts that underpin an investment proposition will be little more than educated guess work. Indeed companies that do success with products of esoteric or difficult to quantify value, such as one particular brand of breakfast cereal compared with another, spend vast amounts of money in promotions trying to convince discerning customers that their product offers the best value for money.

### **Markets are the biggest risk**

Remember, most new ventures fail, and failure is most often for market reasons.

In preparing or viewing a business plan pay particular attention to the sales forecasts. Try to understand why customers will want what you have to offer, or perhaps, why they will not. If you can be convinced that your product does have a place in the market, that is a great start. The next important question to ponder is just how you will communicate your message to the market, and moreover, the cost of doing so, the particular medium for communicating your message and the risk and reward scenarios.

The message is clear, when you are considering any new venture, either one of your own making or that of somebody else, unemotional rational objectivity is essential, together with a clear understanding of the "value proposition" that you are offering to customers, and importantly, how you will communicate that message to the market.

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