To Draft a Business Plan or Not?

"Strategy without tactics is the slowest route to victory. Tactics without strategy is the noise before defeat." Sun Tzu, The Art of War

"Create something, sell it, make it better, sell it some more and then create something that obsoletes what you used to make." Guy Kawasaki

"Written goals provide clarity. By documenting your dreams, you must think about the process of achieving them." Gary Ryan Blair

A recent article in the Harvard Business Review (May 2013), "Why the Lean Startup Changes Everything" by Steve Blank got my attention. He argues that you should "sketch out your hypothesis" (using the excellent Business Model Canvas[1]) and get going right away. Under the heading of "The Fallacy of the Perfect Business Plan", he states, "According to conventional wisdom, the first thing every founder must do is create a business plan … A business plan is essentially a research exercise written in isolation at a desk … The assumption is that it's possible to figure out most of the unknowns in advance."

No doubt the author wrote this as somewhat of an exaggeration, as a stark contrast to make the case for a quick, iterative, customer-centric design and build approach, that clearly sounds more exciting, efficient and on point. This methodology is sometimes referred to as customer development. He then goes on to present a more detailed model adapted from the iterative and incremental Agile software development methodology that has recently been espoused over the classic, linear waterfall method[2]. While I certainly agree with the need to get going and not get caught up in the paralysis of analysis (as would Guy Kawasaki quoted above), the need for planning and writing it down is equally important (here Sun Tzu and Gary Ryan Blair seem to agree). Indeed in Steve Blanks' model each iterative cycle starts with planning followed by requirements, and analysis and design prior to implementation, testing, and evaluation. Sounds like business planning to me!

Like most things, the answer lies in the middle. I recommend to every entrepreneur that they do fairly extensive planning and put it down on paper[3]. I do not however recommend that this planning be done as a "research exercise written in isolation." The greatest value in developing a business plan is forcing you to list your assumptions. The more detailed and explicit the plan, the more explicit will be the assumptions and the

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[1] Business Model Generation (2010) by Ostewalder and Pigneur as well as 470 practitioners. This is a great book both in content and design. Their, now famous ,9 building blocks and the associated graphic are now seen everywhere (see www.businessmodelgeneration.com) and are extremely valuable for planning or analyzing an opportunity. The design of the book is also fantastic: very visual, well laid-out and fun. A must buy at about $40.

[2] Coined in 2001, see http://en.wikipedia.org/wiki/Agile_software_development

[3] My consulting practice involves helping entrepreneurs and intrapreneurs enhance their strategic innovation efforts, through better planning, researching and experimentation. See www.hexagon-Innovating.com for more details.

easier it will be to identify inconsistencies, problems and additional opportunities[4]. These assumptions and especially their interrelations can then be subject to testing in a prioritized manner now or as the opportunity matures, whether that be by desk-based internet research, by talking with suppliers, customers, industry experts and opinion leaders, by creative thinking and debating among your team, and/or testing in the market/ customer development[5]. A plan that I recently assisted with included an appendix of over 120 frequently asked questions (FAQS) as seen on many websites[6]. This proved to be a great opportunity to use the invaluable question and answer format to further probe all of the assumptions and possible issues not made quite as explicitly in the core 35-page plan.

Aside from some delay, two other arguments against writing a business plan are: that it is a lot of work, and that it will never be correct so it's of little value. This is also the reason that many plans become a static document collecting dust on some shelf. Indeed, it is labour intensive and the reality never turns out as planned[7]. However as discussed previously it's the process that is as, if not more, important then the resulting plan. For the early-stage companies I worked in or very closely with, I carried around a bound copy of the plan, referring to it frequently and making copious notes in pencil in the margins as I learned new things and revised the assumptions. When the weight of plan had increased by 8 gm (the weight of 1 pencil lead), I knew it was time to redraft it and did so![8] These business plans became living documents with our assumptions kept both top-of-mind and as accurate and up-to-date as possible.

On the other hand, proceeding without much planning increases the risks and can lead to serious setbacks. Perhaps the most damaging being having your opportunity turned

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[4] Some of my favourite inconsistencies and assumptions include: Huge sales forecasts with no or very little marketing budget - "It will sell itself." The belief that the product or service is so unique that either there is no competition at all (and never will be) or if there are "distant" competitors they will not (never) respond to your market entry. That the market penetration will reach 90-100% of the target population whereas Google search has an 89% share, Android OS 55%, Samsung TV's 28%, Sanyo batteries 23%, Rolex luxury watches 22%, McDonalds 19%, General Motors 12%.

[5] Using your network of colleagues or their network indirectly through referral or LinkedIn is a valuable tool. I have found that most people are very willing to provide advice or share their knowledge as long as you have done your homework and are asking good, well though out questions. That old device the telephone works well, sometimes a coffee or lunch is more effective, and of course there are many opportunities at conferences and trade shows.

[6] Given the importance of understanding and getting a feel for the assumptions and their interrelations, I believe that the founders should hold the pen and do most of the business planning and writing. When I was a VC, I never funded a plan, (at least obviously) written by a 3rd party! Consultants and other advisors can provide valuable input reviewing, questioning and providing advice and in some cases doing sub-tasks like competitive intelligence research. In fact going a step further, I believe every team member should build their own simple financial model based on the core model as this is the best way to get a feeling as how all the parts come together and their sensitivity to minor changes. I have always done this whether assisting firms or conducting due diligence.

[7] A standard venture capital rule of thumb is that plans always take twice as long and cost twice as much to execute. To sound more scientific, we often used π (pi or 3.1415926536) instead of 2!

[8] We never did weigh the plan (actually measure its mass to be perfectly correct) instead we could tell by the quantity and importance of the scribbles. {The mass of a pencil lead, which is actually graphite and clay, was estimated for a 2 mm diameter lead, 130mm long with a density of 2 gm/ cm^3}.

down by potential investors. You'd be surprised how many entrepreneurs I have met with new, breakthrough ideas that I find already exist on the market within a few minutes of Googling. More common problems are misunderstanding customer needs, the actual market and its size, and the intellectual property landscape, as well as underestimating regulatory concerns, sales cycles, competitors and competitive products, costs, and of course the time required to complete various activities.

Rushing into an opportunity is rife with dangers, as is planning to perfection. The right approach is a balance. This involves combining detailed and iterative planning with research, and field-testing and experimentation. In doing so, you can move your opportunity forward towards commercial success as effectively and efficiently as possible.