



## The 100-Page Start-Up Plan -- Don't Bother

If you've considered starting a business, or actually have done it, you've probably been instructed to write a business plan. Perhaps you even bought a business-planning guide walking you through elaborate details of market analysis, sales projections and operational plans.

But while there's a lucrative industry of software, how-to books and business coaches preaching the merits of lengthy planning -- and selling their business-planning expertise -- a growing body of research suggests that some entrepreneurs spend way too long polishing 50- or 100-page business plans when they should be out in the marketplace selling their product or service.

"It doesn't take a year of planning to figure out whether someone is going to buy your product," says William Bygrave, a Babson College entrepreneurship professor. "All you have to do is start selling it."

### Important Questions

Some entrepreneurs get so caught up in polishing their written plan, they lose sight of make-or-break issues, such as whether they have actual people clamoring to buy their product and who will sell it. Sometimes, the product can't be manufactured and sold at a price that will make a profit.

But it shouldn't take a year of long-winded planning to figure that out.

Mr. Bygrave and a few of his colleagues were so curious about the value of written business plans that they analyzed 116 businesses started by Babson alumni who graduated between 1985 and 2003.

Comparing measures such as annual revenue, employee numbers and net income, they found no statistical difference in success between those businesses started with formal written plans and those without.

The study concludes: "Unless you need to raise external start-up capital from institutional sources or business angels, you do not need to write a formal business plan."

Other research has come to similar conclusions. Columbia University professor Amar Bhidé analyzed Inc. magazine's 1989 list of the 500 fastest-growing private businesses and found that 41% of them didn't have any business plan, and 26% had rudimentary plans.

He found that many opportunities need to be pursued quickly -- and to take advantage of them you can't wait for the planning process to be completed.

### Dumping the Plan

Many business plans get tossed out the window the day after launch, because the plan wasn't grounded in reality.

Traditionally, when a business plan has been essential is when a start-up is pitched to potential investors. But even that's changing. Many venture capitalists and angel investors now say an effective 10-minute slide presentation or executive summary can be more effective than a full-blown written plan.

Investors often base their decision to invest on their trust in the people running the business as much as the idea itself.

"Most venture capitalists base the decision on a five-minute conversation or 10 PowerPoint slides," says Guy Kawasaki, a Silicon Valley venture capitalist and creator of AllTop.com.

Too often, he says, entrepreneurs try to pitch venture capitalists with projected sales forecasts that show a large upward trajectory, when "we know it has no relation to the truth."

### **Forget About Planning?**

So ditch the planning altogether? Not so fast. While the formal written plan itself may not be worth much, the planning process can be very helpful in honing strategy and dodging potential calamities. Just don't spend too long on it.

Mr. Kawasaki says entrepreneurs should spend no more than a few months planning and writing a plan of less than 20 pages. He recommends addressing three key questions: Who's going to make it? How are we going to sell it? How are we going to service it?

"The most important thing they should do is create a prototype" of their product, Mr. Kawasaki says. "Spend your time creating prototypes, not plans."

The value of the planning is it forces you to go through the various scenarios and troubleshoot hypothetical problems or roadblocks. You can address, for instance, what sales channel will be most lucrative and the most opportune sales price -- decisions that have to be made before you hit the market.

### **Flexibility Is Crucial**

But for certain, much of the real planning happens once you start selling and hit realities you may not have anticipated.

And it's important to recognize when there's a flaw in the plan and be willing to change directions or ditch plans altogether when they're clearly not working, says Tom Kinnear, executive director of the entrepreneurial studies institute at the University of Michigan.

A business plan should just be a compass, he says, pointing entrepreneurs in the right direction before starting their business. Too many entrepreneurs get wrapped up in perfecting their written plans, which he says shouldn't take more than a few weeks to write.

"No business plan has ever survived contact with the marketplace," he adds.

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