

# Business Plans – a Necessary Evil

By Roger La Salle © 2008  
[www.matrixthinking.com](http://www.matrixthinking.com)

## The Business Plan

Do you know anybody that has ever written a losing business plan?

Whenever anybody has a new idea or initiative, before investment dollars are won, the necessary prerequisite of a business plan is demanded, as it should be. The problem is, too often those tasked with writing the business plan are the very same people that conceived the idea, and thus they are biased even before they start.

The final page of most business plans is usually a spreadsheet that quantifies the opportunity. What happens if when the numbers are “run”, the outcome is not quite as good as you expected ... easy, change the numbers to get the result you always knew would be correct.

Unfortunately the above scenario occurs all too often. Thus, not surprisingly most new ventures, even those supported by a “winning business plan” usually fail.

## Market failure is the biggest Risk

Further, if we examine the reason for such failures, by far the single biggest is market failure – you just don’t sell as many widgets as you forecast.

Indeed there have been some classic market failures, even after the most in-depth and rigorous market research. The infamous Edsel Ford motor car in the 1950’s is just one classic text book study. The much heralded Apple Newton and the SEGWAY two wheel transporters were also less than impressive in the commercial realities of consumerism.

## Why bother with a Business Plan?

A valid question at this point may then be, “why bother with the business plan at all” or perhaps better still, “how can we reduce the risks in writing business plans?”

Business plans start you on the journey and are usually demanded, especially by astute investors as a test of your commitment and competence. It is often said, investors invest in people more so than the opportunity. Hence the necessary test of your capability in developing a logical business plan that considers all the important issues and presents a good business case.

At this point, perhaps we should perhaps dispel the common myth that if we persist we will succeed. This is nonsense; no amount of persistence will turn a “dog” into a “star”.

Perhaps this is best summed up in the following:

***Persistence is an important element of success***  
***Persistence is an essential element of failure.*** © La Salle 1995

The business plan is the first step that wins funding, allows you to assemble a competent team and commence the journey. Few if any people who take this first step towards a goal actually end up where they expected. Indeed the astute entrepreneur will most often find that the real “pay dirt” is off to the side somewhere, but they are astute and brave enough to recognise this and capture the real target.

In other words, you have to know when something is not working, stop and find the real opportunity.

## **Making the Purchase Decision**

Turning now to the question of reducing the risk in writing business plans, the answers lie in understanding the market, the value proposition, the value chain and the real meaning of innovation?

In simplistic terms people only purchase things for one reason, they see value for money. Be it a power tool or a ROLEX watch, people assess and reach the value decision before they make a purchase.

The value proposition simplified says:

***If I spend A\$ to get B  
I will only do so if I believe that B is at least equal to or greater than A\$.***

We need to understand this value equation and relate it to the venture on which we are about to embark.

In addition we need to consider the participants in the chain of events that will get a product to the market. This is commonly referred to as the “value chain” and includes all the players from the inventor or creator through the distribution network to the seller, the purchaser, the user, and now even the disposer. (It is the breakdown of the value chain in the case of the disposer that promises to spell the demise of the plastic bag in supermarkets).

Finally consider the new value chain player, the carbon footprint. If your new venture is not carbon friendly (a small carbon footprint) then beware as you will likely have great market resistance.

All players in the value chain need to have a positive value proposition. Even in the case of “loss leader” items, the sums have been very carefully done to ensure the ultimate value or return on the investment is obtained.

Notice also that in some cases the user is not the purchaser. Such cases need special consideration as to what value the purchaser gains. This case may apply to purchases of special treats or toys for children, but there are also examples of industrial products that have failed because of a failure to understand that the purchaser was not the one deriving the ultimate value.

## **Understanding Market Risk**

To gain a snap shot of market risk consider the following diagram that can be representative of any product or service.

On the horizontal axis are the sectors that characterise everything, these being Industrial/Commercial products and services, Consumer products and services and finally Fashion and products and services.

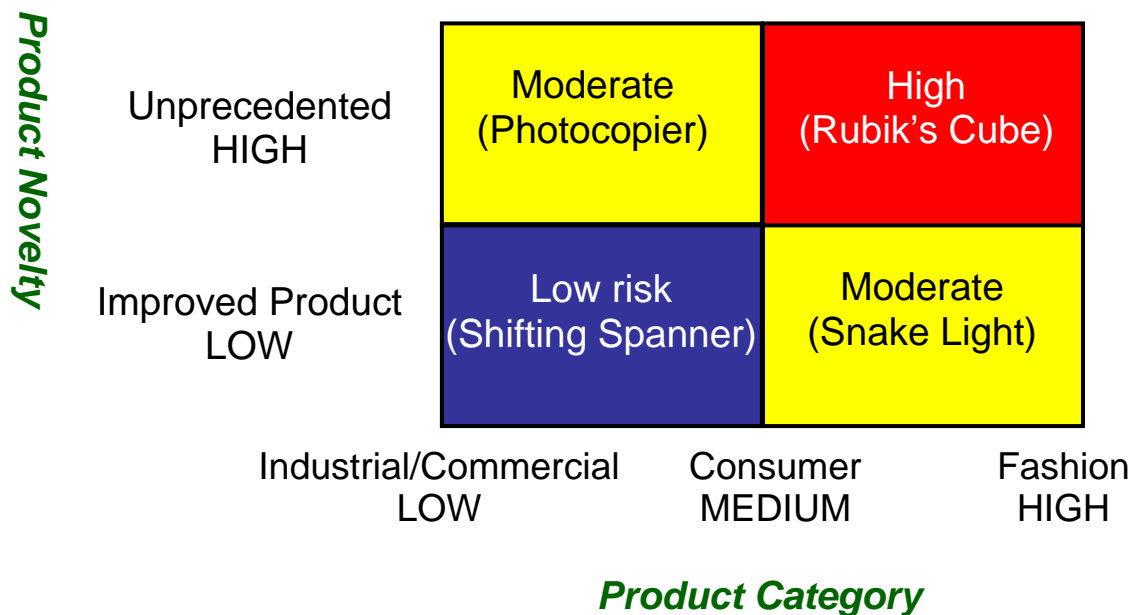
In the case of industrial/commercial products such as power tools, fax machines, and high speed photocopiers etc the value proposition can usually be easily quantified and a rational purchase decision reached.

In the case of consumer products, advertising is what attempts to establish a value proposition, such as “this brand tooth paste cleans whitest of all” etc. People who are not moved by this type of argument often purchase lower priced home brand items.

Finally there are the fashion items where the value propositions are so abstract they beggar belief. Fashion companies spend many millions of dollars establishing their “Brand” as their value proposition.

On the vertical axis of the market risk map is the degree of novelty. How new is it, is it completely novel or have I seen it before? Unfortunate newness often spells high risk.

## Market Risk Map



It is important in developing a business plan to understand where you fit on this map.

The blue area is the ideal place to be because items in this area usually have a quantifiable value propositions and have low novelty that allows people to relate to what they are purchasing and how it can be used.

Any mechanic will instantly relate to the benefits of a double ended or shifting spanner compared with a single ended one.

The top left hand yellow area represents products that when introduced were completely novel. These include such things as the photocopier, the fax machine, the PC and even the internet.

The thing common to all these high novelty products is that they all had long and difficult gestation periods. People simply could not relate to them or how they could be best used. Indeed many of these products took decades to pervade the market.

Moving to the top right hand corner, it is virtually impossible to make even the vaguest estimate of the likely sales volume of such an abstract product where the value is virtually impossible to understand. True the Rubik's Cube was a remarkable success, but if asked in advance where would you invest your money, a Rubik's Cube or an improved spanner, I believe the answer is quite obvious – the product for which you can both see the value and understand its function..

### **Innovate – don't Invent**

The lesson to be learned is to Innovate not invent.

The word innovate is best defined as “Change that adds Value” ©La Salle 1999.

The ideal way to mitigate business risk is to remove market risk by finding something that everybody is doing or purchasing, improve or “innovate it” and go back to the market with a better one, preferably at a better price. This is a low risk strategy founded on the certain notion that anything can be innovated, or improved.

If you wish to challenge that statement, choose any item, and suggest that in 100 years it will be identical. Of course this is not the case, so don't wait, innovate it now.

### **Fast Second is a Great Strategy**

This classic business strategy is often referred to as “fast second”.

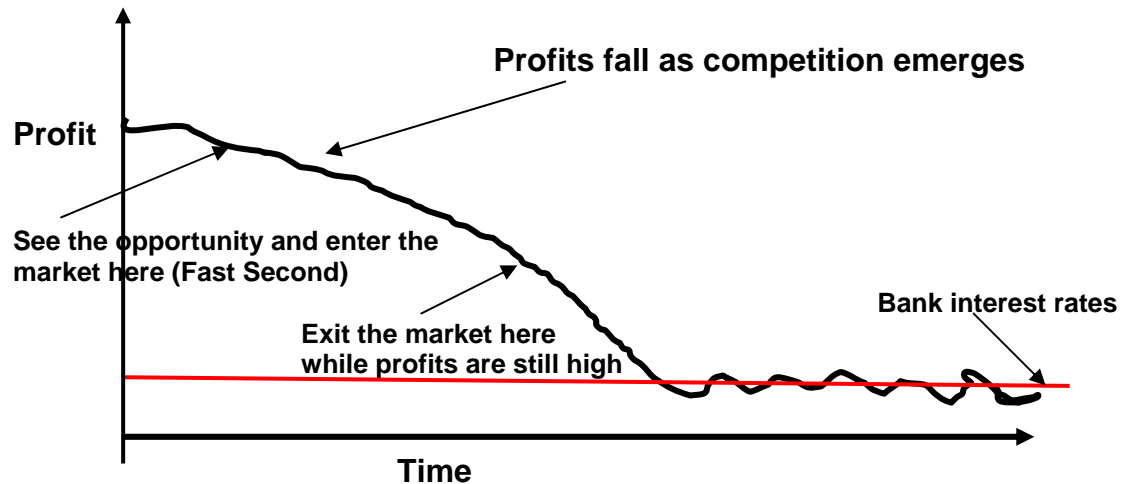
Rather than the questionable so called advantage of being, “first mover”; in many cases being second is better, and certainly carries a lot less risk.

New ventures that actually succeed that are not in some way protected by patents, regulations or a high degree of innovation find that competitors, seeing the profits of these success stories, enter the market as followers, wanting to cash in on the riches that are available. The result of course is that over time the profits of these initially highly successful ventures fall and ultimately decline to a level of a little over the prevailing bank interest rate. At that time there is a market shake out leaving a few to survive in businesses that are now only modestly profitable.

City based convenience stores are a striking example. The early ones were amazing success stories charging exorbitant prices for “must have” conveniences. Look now and you will find most cities saturated with these stores all fighting for a share of a now much diluted market. Video rental shops are another example as are farmers where crops are planted in accordance with market trends.

### **Being a Follower has some Benefits**

If we accept that pioneering may be a risky, perhaps the best way to enter or improve your business is to remain vigilant and be early to spot the emerging successes and then “innovate” the successes and go back to the market with a better offering.



Henry Ford did not invent the motor car but when he saw the market opportunity afforded by the first clumsily built and expensive cars, he “innovated” the process of manufacture and thus brought cars to the masses.

Bill Gates was not first with the Windows style GUI, indeed many would argue he was third after Xerox and Apple, but look at the success of this third market entrant.

IBM is another example of a company that was not first into the personal computer market, but when it realised the market potential of personal computers it quickly moved into the market, as fast second. In doing so IBM virtually stole the business, thus making the IBM compatible the industry standard.

### The message is clear

Business plans are essential, but understand that what underpins success is the value you are delivering, how people will relate to your offering and most of all realise that the business plan is just the start of a very long journey.

**Roger La Salle**, often is the creator of the "Matrix Thinking"<sup>TM</sup> technique and is a widely sought after international speaker on, Innovation, Opportunity, and business development. He is the author of three books, Director of a number of companies both in Australian and overseas and has been responsible for a number of successful technology start-ups. In 2004 he was an expert panellist on the ABC television program “The New Inventors” and in 2005 was appointed to the "Chair of Innovation" at the Queens University in Belfast. [www.matrixthinking.com](http://www.matrixthinking.com)