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# Top Ten Mistakes in Business Planning

by Michael J. Prager

All companies engage in some planning activity, but many come up short on the bottom line. When new product or service lines fail to meet expectations, the obituaries begin. In hindsight, companies often rationalize the causes of failure, but are doomed to repeat it. Much is learned, but little is changed. The cycle repeats itself and another obituary is written. Here are my top ten mistakes in business planning:

- 1) Back of the Envelope
- 2) Close the Barn Door
- 3) S-U-C-C-E-S-S
- 4) Option, Options, and More Options
- 5) Enamored Visionary
- 6) Groupthink, Think Not
- 7) Find the Hidden Assumptions
- 8) Who's Minding The Store
- 9) Know When to Fold 'Em
- 10) Wave the White Flag

## Back of the Envelope



The primary reason that 80% of new businesses fail within five years<sup>1</sup> is the lack of a well-conceived, documented business plan.

A plan is an essential tool that methodically thinks through the entire planning process. Planning and analysis yield strategies and implementation that are sound and completely "thought through." The latter is rarely accomplished.

Organizations spend plenty of time on ideas, but do not explore the side-effects, validate assumptions, identify risks, adequately plan for contingencies, or understand hidden assumptions. This causes a parochial view of the business and, consequently, a high failure rate.

## Close the Barn Door

The lack of analytical and planning skills is prevalent in smaller companies and, to



a lesser extent, in larger ones. Those vested with the responsibility for planning are experts in their industry, field, product, or service, but they often miss the mark on financial and management skills required for planning. For example, the owner of a fitness chain knows about exercise equipment and the latest fads but lacks sufficient experience or training to develop a business plan and cash flow models, to prepare strategic analysis, to identify threats, and to plan for contingencies.

Planning for threats is essential for a sound business plan. Threats can emerge inside a company, through competitors, or from other industries. Companies may not properly identify or evaluate threats until they tangibly affect the bottom line. By then, companies have few options, and the goal becomes damage control.

## S-U-C-C-E-S-S

It is important to know if a company's past projects were successful. While most companies say "yes," few can answer the question, "How do you know?" Success requires a common benchmark.

Otherwise, every person sets their own standard, which leads to different benchmarks and either premature abandonment of a great idea or the continuance of a bad one.

Clear benchmarks ensure that a project or business is viewed the same way by employees, owners, shareholders, and third parties, and avoids the confusion and ultimate confrontation of different yardsticks. Benchmarks must be reasonable and measurable.

## Options, Options, and More Options

Companies have confidence in their products, services, and ideas. Failure is not often considered and companies

ignore alternative strategies and options. If results fail to meet expectations, a scramble ensues to find solutions, and companies get locked in crisis management.

A company that anticipates unforeseen events is a step ahead. If "Strategy A" fails, they have more options than a company that ignores failure. Contingency planning evaluates and sets strategies for potential outcomes and prepares to implement them with little notice. It is important to use a questioning style that quickly identifies risks, and a mentoring or collaborative style that helps solve them in a positive environment.

## Enamored Visionary

Visionaries are often enamored with their ideas and sometimes fail to see faults or plan for contingencies. They would rather manage as they go, which may lead to wasting money and frustrating those around them. Enamored visionaries prefer people that agree with them and weed out contrarians.

Solving this problem requires an independent person who brings a fresh perspective and no pride of authorship to cloud the vision. By asking tough questions and probing strategic details, this person can identify flaws, help solve them, and turn a potential failure into a success.

## Groupthink, Think Not

Related to the "enamored visionary" problem, Groupthink<sup>2</sup> is wider spread, but similarly resolved. It occurs when a group of people involved in the planning process are blinded by the objective.



They want an idea to succeed or are told it must succeed, so they fail to recognize threats, plan for them, or realistically evaluate alternative strategies or goals.



Groupthinks also occur with stagnant groups or cliques. Over time, independence evaporates and the group begins to think alike. People with adverse opinions are either removed or learn to remain silent. This process occurs quietly, with few people recognizing its existence. Groupthinks are very dangerous and can lead to disastrous decision making.

## Find the Hidden Assumptions

Hidden assumptions lead to wrong decisions. They usually come out of hiding after an idea or business fails. A hidden assumption occurs when:

- A statement or conclusion critical to the planning process is not challenged. Nobody asks, "Why is that true?"
- Employees make assumptions to simplify their work or ease their work load.
- A project stops because information is needed and a well-intentioned employee makes a "best guess" for the project to continue.

## Who's Minding The Store

Great ideas do not implement themselves. Poor implementation, rather than an inherent fault in the idea, usually causes failures. Companies and executives move on to the next idea after the last one is loosely defined, but forget to sweat the details. Sayings like, "nothing is impossible for those that don't have to do it,"



and "it's good to be the king," come to mind.

A special person is needed to manage implementation: to create a detailed project plan, manage finite company resources, identify and resolve problems, and champion the cause. Success depends upon those with financial and analytical skills and the ability to organize, document, negotiate, and mentor. Where the project manager is weak, additional knowledgeable people are essential.

## Know When to Fold 'Em

People prefer not to think about failure and an exit strategy. When a plan fails, despite careful planning, it is time to exit.

budgets, or lack of knowledge, companies avoid outside assistance or "asking for directions." Companies fail to realize that advisors or consultants can add significant value by accomplishing the following tasks:

- Quickly completing the planning and analysis which can provide rapid market entry or implementation and reduce opportunity costs.
- Identifying future problems and eliminating or managing them in advance. Fewer emergencies mean reduced costs and improved revenue. Without proper planning, however, few options exist later on.
- Improving the skill set of company personnel. Learning the "how-to's" of planning and analysis increase an employee's value on other assignments.

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- A spreadsheet or model is being developed, but certain information is not known. Rather than research the answer or ask a question, an assumption is made.

Hidden assumptions are rarely disclosed. They are found by accident, when someone unintentionally asks the right question [or] after sub-par performance. A company needs an insightful and technically savvy person to filter out hidden assumptions and minimize the damage.

A deliberate exit strategy avoids a prolonged and expensive emotional retreat. Moreover, it manages the important litigation exposure.

Exit strategies are difficult to develop because nobody wants to think about defeat. An independent advisor is often needed to get the process started and can objectively evaluate exit strategies.

## Wave the White Flag

Pride can get in the way of many things, including success. Whether it is ego, tight