Inside the Mind of a VC

Make a Plan You Can Make

There's a dirty little secret about the venture capital business. Almost no start-up ever makes its business plan! In fact, in our partnership you can drop the word "almost." After 20 years in the business and some 75 deals done, not one company we have backed has ever lived up to the billing in the plan on which the investment was made.

Gerry Langeler
OVP Venture Partners

Now, that is not to say that we haven't funded some fabulous companies—we certainly have. We've had more than 20 IPOs and an equal number of successful acquisitions of our portfolio firms. But it does inject a note of realism and caution into the whole process of business planning and start-up fundraising. The next time you are tempted to slip the word "conservative" into your financial projections, beware. They are not! No company can ever say that its plan to jump from zero to many tens of millions of dollars in sales in a few years is conservative. That kind of explosive growth requires many things to go right, with many of them not under the direct control of company management. Every entrepreneur needs to go to sleep at night (or perhaps in the early morning) with the clear understanding that his or her business plan is at best a guess and at worst a dream, based on multiple miracles occurring on a predetermined schedule.

Almost no start-up ever makes its business plan!

Caveat emptor

So what happens when you put together a business plan that you really believe in, raise money, and then don't make your plan? Nothing good! First, you send a message to your new investors that your judgment is not to be trusted. There is no worse feeling for a venture capitalist than to go to the first board meeting after the check goes in and have the company announce that it is falling short of its plan, or "missing plan." It happens all too often. All of us in VC-Land dread those first meetings for exactly that reason. One of the most undervalued yet precious commodities in the start-up world is a constructive functional board. The fastest way to make a board of directors dysfunctional and destructive is to cause the people on it to think they've been had. You'll quickly see behavior best reserved for the local pre-school. In addition, one of the reasons that VCs are tending toward staged financings these days (a policy that we do not happen to like) is that they are sick and tired of getting burned by paying for optimistic, unrealistic projections. Now they are putting the heat on entrepreneurs to put up or shut up.

A culture of failure?

The second bad thing that happens when you miss plan is that you send a message to your employees. You tell them one of two things, or perhaps both. On the one hand, they all feel as though they are failing at exactly the time when you need their maximum contribution and positive motivation. It is perfectly OK for the team to feel stressed to achieve and feel the hot breath of potential failure on their necks. It is quite something else for them to feel impending failure

(Continued on page 3)

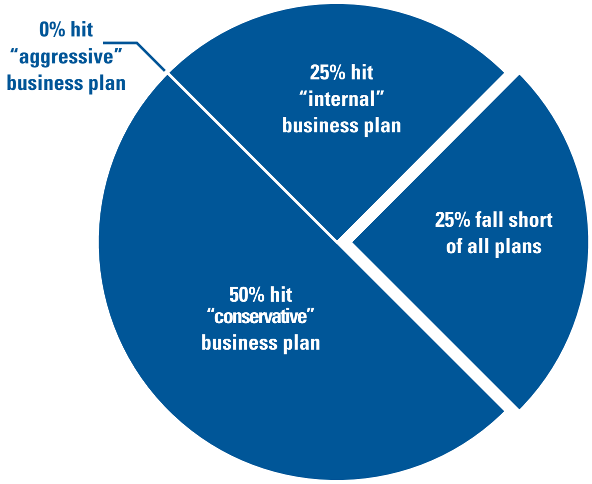
whispering in their ear. You also send a contrary message: It's OK to fail. We had a plan, we're missing plan, and we're all still here! Talk about a cultural problem. One of the worst things you can ever do to members of a start-up team is to let them believe that failure is acceptable. What happens to next year's plan? Do people take it seriously? Do they take corporate performance personally, or is it "something that the board worries about"? If failure is acceptable, do I step up to nonperformers in my organization or hold their hands and muddle through? If the CEO can miss plan and keep his or her job, "What, me worry?"

We had a plan, we're missing plan, and we're all still here! Talk about a cultural problem.

Three's company

So what do you do? You need a plan that shows how good it could be in order to demonstrate that you have a business that can scale to attractive size. Investors do want to buy the dream even if it is a bit of a stretch. Then you need a plan that encourages the organization to achieve, but doesn't expect "everything to go exactly right," because it certainly won't. Finally, you need a plan that tests the boundaries of "what if" on the downside, to make sure that if sales are seriously delayed, for whatever reason, you still can survive to fight another day. (As VCs, we'll ask for this even if you don't have it, so you might as well get it ready in advance.) You really need three plans! The "aggressive" plan assumes that almost everything goes right. The "internal" plan is what employees and management sign up for. The "conservative" plan (and even here, I hesitate to use that word) factors in product slippage, longer sales cycles, and tough competitive response. Our history says that no one hits the "aggressive" plan (which is the plan we always see), less than 25 percent of start-ups hit what would have been their "internal" plan, perhaps 50 percent are in the neighborhood of their "conservative" plan, and a full 25 percent or more would fall short of even that.

When you put together a business plan to raise money, you have many audiences for those numbers and many consequences from their accuracy. To maximize the chances of getting all those constituencies in sync, lower your sights, expand your field of view, put out a plan you can make—and then make the plan!



Gerry Langeler, General Partner
(503) 697-8766
langeler@ovp.com