

4 REASONS MOST SMALL BUSINESSES DON'T PLAN & WHY THEY NEED TO THINK AGAIN.

It is so widely acknowledged that a robust business plan is one of the key ingredients in small business success, it seems remarkable that anyone serious about their business could consider it optional. For example, Business Link say, "It is essential to have a realistic, working business plan when you're starting up a business"ⁱ. A recent survey showed that small businesses were twice as likely to be successful with a written business plan as compared with those without oneⁱⁱ. The Times in their annual round up of 100 up and coming UK businesses suggest that "poor business planning" is a key reason for failureⁱⁱⁱ. Indeed, it's almost impossible to find an authority that would advocate the opposite idea, a clear signal that this idea is accepted wisdom. Despite this, a recent survey shows that two thirds of small business owners run their businesses on gut instinct alone^{iv}.

I had a very interesting discussion about this a couple of days ago with a good friend of mine who has run several successful small businesses in which he posited the idea of a "planning gene"^v. He felt that the only possible explanation for the lack of proper planning in small business was genetic.

According to his theory, the majority of people are born without the "planning gene" and this explains why so many people don't have any written business plan, despite the overwhelming evidence of a high correlation between a robust and vigorously implemented business plan and business success. The majority of us are simply not biologically and genetically wired to plan.



This is certainly one explanation, although I have to say I have a few reservations as to the validity of his theory. I talk with small business owners about planning every day. I'm part of a small business myself. I've owned several small businesses over the last ten years each with varying degrees of success. In all those conversations and all that experience, this was the first (semi) serious discussion I'd had about the planning gene.

If I was to aggregate the results of the conversations I have had with actual and prospective customers on this topic, four distinctive strands emerge explaining why small business owners fail to plan. Whilst I have heard a few other explanations for the lack of effective small business planning, I am treating these as outliers and focusing on the most significant.

ⁱ <http://www.businesslink.gov.uk/bdotg/action/layer?topicId=1073869162>

ⁱⁱ <http://smallbiztrends.com/2010/06/business-plan-success-twice-as-likely.html>

ⁱⁱⁱ <http://features.thesundaytimes.co.uk/public/best100companies/live/template>

^{iv} <http://www.smallbusiness.co.uk/channels/start-a-business/news/1281878/most-smes-have-no-business-plan.shtml>

^v When I told him I was writing this article, my friend begged to remain anonymous as he believes that his off the wall theory might undermine the credibility he enjoys with his clients. I thought his theory was shared in fun at the time, but he has since sent me some links to studies done on genetic predisposition to OCD as "evidence". Now I know he's poking fun at me. Perhaps I'll out him yet...

THE FOUR REASONS NOT TO PLAN

I'M TOO BUSY TO PLAN – More often than not, the small business owners we talk to tell us that proper planning is a luxury that only big business can afford. For them, business planning, if done at all, was a one-time event that produced a document for a bank manager or investor which is now gathering dust in the furthest recesses of some rarely opened filing cabinet. There just aren't enough hours in the day and if forced to choose, they would do the real, physical work and leave the mental work undone, which seems to be the poor relation at best, if it is even dignified with the status of work at all.

TRADITIONAL PLANNING DOESN'T WORK – The “I'm too busy to plan” excuse is often supplemented with this one. I've heard the stories of the most legendary construction overrun of all time, [The Sydney Opera House](#), originally estimated to be completed in 1963 for \$7 million, and finally completed in 1973 for \$102 million, more times than I can remember. Sometimes, this idea is backed up with some actual research, such as the fascinating study by several eminent psychologists of what has been called the “planning fallacy”^{VI}. It seems that some small business owners genuinely believe that mental work and planning is a bit of a con with no traction on physical reality.

MY BUSINESS IS DOING FINE WITHOUT DETAILED PLANNING - A minority of small business owners we speak to are in the privileged position of being able to say they've done pretty well without a plan. Why should they invest time and resources into something they don't appear to have missed?

PLANNING IS FUTILE IN A CHAOTIC WORLD – Every once in a while, we hear how deluded we are to believe that the world can be shaped by our hopes and actions. This philosophical objection to planning is perhaps my favourite. It takes ammunition from a serious debate about the fundamental nature of the universe and uses it to defend what almost always is either uncertainty about how to plan effectively or simple pessimism. This is different from the idea that planning doesn't work as these business owners have never even tried to form a coherent plan, but have just decided to do the best they can and hope that they get lucky as they are knocked hither and thither like a steel ball in the pinball machine of life.

As with all of the most dangerous excuses, there is a kernel of truth in each of these ideas and I sympathise with those who have allowed themselves to be seduced into either abandoning or failing to adopt the habit of business planning. Most small business owners feel the same dread in relation to business planning as they do to visits to the dentist, so it's unsurprising that so many simply don't bother. However, by turning their backs completely on planning, they are in danger of throwing the baby out with the bathwater. Taking each idea outlined above in turn, I'll attempt to show why business planning is critical, not just despite that reason but precisely because of that reason.

^{VI} For an overview of this work, read Buehler, Roger; Griffin, Dale, & Ross, Michael (2002). "Inside the planning fallacy: The causes and consequences of optimistic time predictions". In Thomas Gilovich, Dale Griffin, & Daniel Kahneman (Eds.), *Heuristics and biases: The psychology of intuitive judgment*, pp. 250–270. Cambridge, UK: Cambridge University Press.

WHY YOU MUST IGNORE WHAT YOU JUST READ

I'M TOO BUSY NOT TO PLAN – Time is the scarcest resource we have and it is natural that we would want to spend it doing those things that we believe will have the greatest impact. Of course, we want to spend most of our time producing, but we should also invest at least some time into developing our productive capacity. As Stephen Covey pointed out in his seminal work, “The Seven Habits of Highly Effective People”, we should never be too busy sawing to sharpen a blunted saw. Planning is one of the highest leverage activities we can engage in, as when done effectively it enhances the productive capacity of small businesses, enabling them to do more with less. Nothing could be a bigger waste of precious time than to find out too late that we have been using blunt tools in pursuit of our business goals.

If we as small business owners weren't so busy and time wasn't so scarce, then we wouldn't have to make choices about what we did with our time and resources. We could simply pursue every opportunity which presented itself. However, for the busy entrepreneur, the decision to do one thing always has the opportunity cost of not being able to do something else. How can we be certain that our business is going where we want it to go without pausing regularly, scanning the horizon and making sure not only that we are on track but also making sure that we still want to get to where we are heading? I believe more time is wasted in the single-minded pursuit of opportunities that are not right than is wasted by over thinking the opportunity of a lifetime.

In short, small business owners are extremely busy and their time is precious. So much so that to waste it doing the wrong things with the wrong tools would be tragic. Small business owners that cannot afford the luxury of making expensive mistakes simply must regularly sharpen the saw through continuous business planning.

TRADITIONAL PLANNING DOESN'T WORK, SO WE NEED A NEW PLANNING APPROACH THAT DOES – There are some fairly large question marks over the effectiveness of traditional business planning techniques. In an age where business models are becoming obsolete in months rather than years, a business plan projecting five years into the future cannot be viewed as gospel. Nobody has a crystal ball and if they did, they probably wouldn't be writing business plans but using their remarkable predictive powers to some more profitable end.



**PLANNING IS MUCH EASIER SINCE
I BOUGHT THIS FORECASTING AID**

becoming obsolete in months rather than years, a business plan projecting five years into the future cannot be viewed as gospel. Nobody has a crystal ball and if they did, they probably wouldn't be writing business plans but using their remarkable predictive powers to some more profitable end.

Dwight D Eisenhower said “plans are useless, but planning is essential”. Whilst producing a document called a business plan is far from useless, the real value lies in the process by which the plan is created in the first place. If this process can be kept alive in a business then the dangers associated with traditional

planning can be minimised or avoided all together. In an environment of continuous business planning, small businesses can be flexible and adaptive to the inevitable changes and challenges they will face. Rather than quickly becoming obsolete, their plan will simply evolve with the changing circumstances.

Accepting that the plan is a living thing that will evolve necessitates a change of approach to business planning. An effective business plan is the response to the repeated asking of the questions what, why, how, who and how much. It is not a 20 - 30 page form to fill in for the benefit of a bank manager or some venture capitalist, who will probably never fully read it. A business plan should help you, not hinder you, in doing business. If traditional business planning doesn't work for you, it's time to embrace the new paradigm of continuous business planning. We promise that it'll work for you, hence our 500% ROI promise. We've never had to refund a dissatisfied customer.

MY BUSINESS COULD DO EVEN BETTER WITH EFFECTIVE PLANNING

– If you are one of the lucky few whose business has thrived despite an absence of traditional business planning, then I say a sincere well done. I hope that you can say the same thing in five years time.

Business life expectancy in Britain and across Europe and indeed the world are in rapid decline. A study done at the end of the eighties and then again as we marched into the new Millennium showed that life expectancy had more than halved for British businesses in those ten years, from an average of 9.7 years to 4.1 years^{vii}. Just because a company once enjoyed market leadership does not mean that its future is assured. Many high street institutions have fallen victim to the recent recession. Five years ago it was inconceivable that UK retail institutions like Clinton Cards, Game, Borders, Barratts, T J Hughes, Habitat, Focus DIY, Oddbins, Ethel Austin, Principles, Allied Carpets, Woolworths, MFI and Zavvi/Virgin Megastore would all be either out of business or teetering on the brink of oblivion in 2012. Yet that is exactly what has transpired.

Any business from the smallest to the greatest is not impervious to the winds of change. A new competitor, a technological breakthrough, new laws or simply changes in fashion and consumer preference can all re-write the future of a company regardless of how bright that future once seemed. It is precisely because these risks exist that business planning is critical. To survive in business is extremely hard, but failing to effectively plan for the future or adapt to current realities surely makes it impossible and failure inevitable.

Of course, it is not necessarily the absence of plans that did for these companies but the quality of their plans and most especially the quality of their implementation. Even a poor plan vigorously executed is preferable to the finest planning and research left to rot in a drawer. Continuous business planning is effective business planning because it emphasizes implementation and regular reviews of real results as part of what should be a continual process of improving company performance rather than simply attempting to predict the future and wringing our hands when our prophecy fails to come true. We believe, like Peter Drucker, that the best way to predict the future is to create it.

^{vii} Seifert, W. G. "Neuer Markt: That Damned Economic Miracle or the Return of Dr Mabuse". The Finance Foundation News, 2002, 3, pg 46-57.

PLANNING IS ESSENTIAL IN A CHAOTIC WORLD – We sometimes feel small and insignificant as we try against all odds to translate our dreams into business reality. It's easy to feel all at sea when we consider some of the challenges we face. However, whilst it is true that we cannot control the direction of the wind, we can adjust our sails and change the direction of the rudder. Difficult and challenging circumstances may come in our lives, but we can control the outcome of these circumstances by choosing which path to take.

The truth is that we are fundamentally achievement orientated as human beings. When this is taken away, we lose much of the energy and motivation that propels us forward. There have been numerous studies carried out on life expectancy rates after retirement^{viii}, which show that when clearly defined goals and daily action moving in the direction of those goals are removed from our lives, the result is literally fatal. The individuals studied who failed to replace their career goals with a new focus for their retirement simply shriveled up and died. The implications for small business owners are clear. Those business owners with clear goals who take action daily that propels them in the direction of their goals are far more likely to thrive and survive than those who take any old goal that comes along or move from day to day with no defined objective other than survival.

It seems to me that precisely because life is so chaotic and challenging that effective planning is essential. Without continuous business planning, our businesses and the small business owners that work in them may find that bit by bit they are atrophying and on their way to becoming another business failure statistic.

There undoubtedly exists an antipathy for business planning felt by many small business owners. Clearly, this cannot be fully explained by the lack of a "planning gene", but it equally cannot be fully justified by the reasons most commonly put forward by small business owners to not engage in the business planning process. These reasons must be critically re-evaluated and a commitment made to a continual and never ending process of improving the condition of their small businesses. Without such a commitment, the future for small businesses in the UK is uncertain.

Colin Smith

Lead Project Manager
Continuous Business Planning

^{viii} Tsai S.P., Wendt J.K., Donnelly R.P., De Jong G., and Ahmed F.S. "Age at Retirement & Long Term Survival of An Industrial Population: Prospective Cohort Study". British Medical Journal, 2005, 331 P.995