



Search Business



Financial Tools

More in Business »

- [Global Business](#)
- [Markets](#)
- [Economy](#)
- [DealBook](#)
- [Media & Advertising](#)
- [Small Business](#)
- [Your Money](#)
- [Energy & Environment](#)

aka. Spectacular NYC, DC and Philadelphia locations. [View our portfolio.](#)

Advertise on NYTimes.com

IN THE HUNT

Investors Pay Business Plans Little Heed, Study Finds



Steve Ruark for The New York Times

From left, David A. Kirsch, Brent Goldfarb and Azi Gera are the authors of a University of Maryland study on how venture capitalists chose to invest.

By [BRENT BOWERS](#)
Published: May 13, 2009

GO ahead and write that 50-page business plan about your fledgling venture if it helps you to focus. Just do not bother showing it to venture capitalists, because it will do nothing to improve your chances of getting financing.

That is the surprising conclusion of a new study by researchers at the [University of Maryland's](#) business school.

Researchers found that venture capitalists, who screen hundreds or thousands of solicitations each year, pay little or no heed to the content of business plans. Instead, the study said, because they make decisions "under conditions of high uncertainty," venture capitalists rely on instinct and their expertise in ferreting out information by other means to evaluate the prospects of a business.

That means, the study said, that they pay little attention to the documentation from entrepreneurs about their academic credentials, work or start-up experience, previous success in raising equity capital, ability to form a top-notch management team or even how much money they want.

"In general, business plans don't matter," said Brent Goldfarb, an associate professor of management and entrepreneurship at the Robert H. Smith School of Business, who wrote the study with David A. Kirsch, also an associate professor at the school, and Azi Gera, a doctoral student. "Nobody is going to read them."

That assertion flies in the face of the conventional wisdom that writing a business plan is one of the first and most essential tasks an entrepreneur should undertake, Mr. Goldfarb acknowledged. But, he says, the report's conclusions jibe with the feedback he gets from

More Articles in Business »

SMALL BUSINESS RESOURCE CENTER

- [Business Travel »](#)
- [Careers »](#)
- [E-Commerce »](#)
- [Finance »](#)
- [Health Care »](#)
- [Human Resources »](#)
- [Innovation »](#)
- [Legal »](#)
- [Management »](#)
- [Marketing & Advertising »](#)
- [Operations & Technology »](#)
- [Retail & Franchising »](#)
- [Sales »](#)
- [Start-Ups »](#)

Small-Business Insights by E-Mail

Sign up for small business news and perspectives, delivered weekly beginning Fall 2010.



[See Sample](#) | [Privacy Policy](#)

Ads by Google

what's this?

[MBA Online](#)

British Degree, Top for Jobs, Apply Online, 24/7 Access & Support
[StudyInterActive.org/MBA-Online](#)

[Marketing&Business Degree](#)

From Top London School, Leading Tutors. Full-time,Part-time&Online
[www.LSBF.org.uk/Marketing-Masters](#)

[Study in the Netherlands](#)

International, accredited, ranked BSc International Business at RSM
[www.rsm.nl/bsciba](#)

[Strategic Business Planning](#)

Download this Free White Paper - Strategic Planning Process Overview
[Finance.Toolbox.com](#)

[Startup City](#)

Startups, need seed funding? Angels, looking for Investment?
[www.startup-city.com](#)

[Start Your Own Hedge Fund](#)

Get all the information you need to start a hedge fund within 30 days!
[www.hedgefundtools.com](#)

Advertise on NYTimes.com

MOST POPULAR - BUSINESS

E-MAILED BLOGGED VIEWED

1. [Small Business: In Groupon's \\$6 Billion Wake, a Fleet of Start-Ups](#)
2. [Resignation Comes at Sensitive Time for NPR](#)
3. [Even a Wealthy Suburb Faces Pressure to Curb School Taxes](#)
4. [Researchers Show How a Car's Electronics Can Be Taken Over Remotely](#)

venture capitalists.

Jeff Fagnan, general partner of Atlas Venture in Waltham, Mass., which provides seed money for young businesses, said he agreed with the study's main premise. "I've never given funding to an entrepreneur who had a business plan with him when he walked into my office," Mr. Fagnan said. "Never. Most of the information you find there, five-year financial forecasts and so on, is not relevant."

He says he looks for "market validation," hard evidence that the entrepreneur has actually sold his product or at least lined up enthusiastic potential customers. Mr. Fagnan says that, rather than reading a report, he wants to hear the evidence in PowerPoint slides, white board presentations or "somebody just talking."

But if he does not look at their business plans, how do entrepreneurs gain an audience with him? "The No. 1 way is referrals" by a respected figure in business or banking, Mr. Fagnan said. If he asked the people referred to him for a business plan, "they would probably say they don't have one," he said.

Greg Herro, chief executive of LifeGem, a maker of specialty jewelry in Elk Grove Village, Ill., laughed when asked about the business plan he wrote to show to venture capitalists and other professional investors a few years ago.

"It was no use to us whatsoever," Mr. Herro said. "Investors might read a business plan's executive summary, but they have no interest in the endless pages of nonsense that entrepreneurs like me put out. If you don't have a track record or actual sales, they are leery."

By contrast, because LifeGem, which he and three partners founded in 2001, has strong cash flow and sales that increased 15 percent last year to \$4.5 million and are steady this year, he predicts he has a good chance at raising up to \$2.5 million soon.

Writing a business plan is not pointless — far from it. Entrepreneurs say it enables them to think through the logistics, possibilities and pitfalls of their operations and to clarify their goals.

"A business plan can be helpful in identifying opportunities in a competitive landscape," Mr. Fagnan, the venture capitalist, said.

More important, according to Stefan Zehle, co-founder of the British business Coleago Consulting and co-author of Economist Books' "Guide to Business Planning," published by Bloomberg Press, a business plan can be a crucial warm-up exercise for getting through the venture capitalists' door.

Venture capitalists and other investors "will never start by reading a 50-page business plan and examine a full set of forecast financials — they have too little time for this," Mr. Zehle wrote by e-mail. "But they will read a one-page elevator pitch-style executive summary, and if it stimulates interest, go on to read a five-page executive summary."

Mr. Goldfarb of the University of Maryland's business school, agreed that if writing a plan helps entrepreneurs "develop a 150-word elevator pitch, that would be a positive result," though he added that they should then practice the presentation "to anybody who will listen and challenge you."

He urged entrepreneurs to keep any plan that they submit to professional investors to 15 pages, starting with four or five bullet points that explain their business.

Mr. Herro of LifeGem recommended a somewhat different plan of action, saying "you should put as much time as you possibly can in writing a comprehensive business plan for your own sake," then compress it into "a very streamlined, need-based outline" for prospective investors to scan.

Skepticism about the usefulness of business plans has its incongruities. Mr. Fagnan of Atlas Venture confessed that he is a judge of the [Massachusetts Institute of Technology's](#) annual business plan competition.

And Mr. Goldfarb said his research report, which examined 1,063 requests for early first-round financing to a venture capital firm in the Northeast from 1999 to early 2002, created a ruckus at his school.

5. DealBook: A Grab for Wall Street's Rising Stars Before They've Risen
6. AARP Sues U.S. Over Effects of Reverse Mortgages
7. Lobby Battle Over Loans for Lawsuits
8. Economist: How Seattle Transformed Itself
9. Media Decoder: Vivian Schiller, NPR Chief Executive, Resigns
10. DealBook: It's Greed v.s. a Picture of Solid Research in Galleon Trial

[Go to Complete List »](#)



Daniel Radcliffe returns

ALSO IN THEATER »

Keira Knightley on the London stage
Harry Connick Jr. is coming to Broadway

nytimes.com

THEATER

ADVERTISEMENTS



Explore the latest issue of T Magazine

THE NEW **DealB%k** Essential Business News On The Go
START NOW ►
dealbook.nytimes.com

Ads by Google

what's this?

[Invest In Healthcare](#)

Break Through For Alcoholism

Small Cap Company Has Breakthrough

www.marketgainer.com

"We require our M.B.A.'s to do a business planning course, and our work got some press just before this requirement was due," he said. "Some of the M.B.A.'s then questioned the assignment."

A version of this article appeared in print on May 14, 2009, on page B5 of the New York edition.

[More Articles in Business »](#)

[Connect with The New York Times on Facebook.](#)

Ads by Google what's this?

[MSc in Marketing Online](#)
 Expert Marketing Tutors Online,
 Forums, Lecture Notes, 24x7 Support
StudyInterActive.org/MSc-Marketing

Past Coverage






- [IN THE HUNT: Investors Pay Business Plans Little Heed, Study Finds \(May 14, 2009\)](#)
- [Angels Flee From Tech Start-Ups \(February 3, 2009\)](#)
- [Fiscal Chaos Aside, Entrepreneurial Spirit Grows in Argentina \(December 26, 2008\)](#)
- [PROTOTYPE: Lessons of Survival, From the Dot-Com Attic \(November 23, 2008\)](#)

Related Searches

- | | |
|--|-----------------------------------|
| Venture Capital | Get E-Mail Alerts |
| Entrepreneurship | Get E-Mail Alerts |
| Small Business | Get E-Mail Alerts |
| University of Maryland | Get E-Mail Alerts |

INSIDE NYTIMES.COM



<p>HOME & GARDEN »</p>  <p>A Glow in the Desert</p>	<p>FASHION & STYLE »</p>  <p>The Americanization of the Rue St.-Honoré</p>	<p>OPINION »</p> <p>Op-Ed: Give Peaceful Resistance a Chance Erica Chenoweth on why nonviolent rebellions have a better chance of succeeding.</p>	<p>MUSIC »</p>  <p>Soulive's Intergalactic Funk Odyssey</p>	<p>OPINION »</p>  <p>Room for Debate: Coffee, New Shaky Commodity</p>	<p>GREAT HOMES »</p>  <p>In Shanghai Apartment, Restored Art Deco Details</p>
--	--	---	--	---	---