

THE METAMORPHOSIS OF BUSINESS PLAN COMPETITIONS

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ABSTRACT

Over the past two decades, business plans have withered as the essential, practical tool for entrepreneurs. Business plan competitions have survived and even thrived. They are still a powerful force in driving entrepreneurial activity, particularly for students and first-time entrepreneurs. Business plan competitions have remained relevant because they have gone through a significant metamorphosis. This evolution is still very much in-progress; with traditional-style competitions withering, newer types of competitions are thriving. This paper contrasts traditional business plan competitions with their modern counterparts. The results may serve to guide entrepreneurship educators and nascent entrepreneurs on how to better use business plan competitions as tools for entrepreneurial growth.

Introduction

Entrepreneurs write business plans much like a rite of passage or a symbolic act to gain legitimacy, and often purely as a necessary chore toward attracting external capital (Leffel and Hallum 2008). Business plan writing has become a staple of university-based entrepreneurship training, and the most common elements in entrepreneurship courses are venture plan writing, case studies, readings, and lectures by guest speakers and faculty (Gartner and Vesper 1994).

In recent years, business plan competitions (BPCs) have become a popular addition to entrepreneurship pedagogy, as evidenced by a 2006 survey of 2,100 universities by the Kauffman Foundation. They found that 16 percent of universities, over 330, were offering business plan competitions (Leffel and Hallum 2008). The value that university and community sponsors place on business plan competitions is evidenced by their growth in the twenty-first century. There were an estimated 40 to 50 BPCs held in the United States in the year 2000. According to data published by The Enterprize Institute, yearly introductions of new BPCs began to increase at an average growth rate of 22 percent from 2004 to 2009 (Ross and Byrd 2011).

One of the most successful BPCs is the Rice University Business Plan Competition, an intercollegiate competition. Founded in 2001, it started with nine universities competing for \$10,000 in prize money. In April 2012, 42 universities competed in front of more than 250 judges for over \$1.5 million in prizes (Henke et al. 2012). Another prominent BPC is the MIT Entrepreneurship Competition. Started in 1990 as the \$10K competition, it continued to grow throughout the 1990s. In 1996, the \$10K evolved into the \$50K, and in 2006 the competition was rebranded as the MIT \$100K. Teams begin competing in the fall and go through several rounds of the competition before finals in the spring (Damast 2007). Since its founding, the MIT \$100K has helped launch more than 60 companies with an aggregate value of greater than \$10.5 billion. Prominent \$100K alumni companies include 1998 winner [Akamai](#) with a successful IPO in 1999.

Goals of Traditional Business Plan Competitions

One of the primary purposes of traditional business plan competitions (BPCs) is to give inexperienced entrepreneurs (notably younger, student entrepreneurs) an opportunity to validate their business ideas before they have fully launched, as well as gain some visibility and traction from potential investors while winning some cash that might be used as seed capital to further develop their venture idea.

Students and other first-time entrepreneurs often have no network of experienced advisors or other experts to validate their plans and ideas, nor any connections to customers or investors that might serve to capitalize the business. Most business plan competitions were established to give these “underprivileged”

entrepreneurs a chance to demonstrate the viability of their ideas. Any subsequent success that these nascent ventures achieve enriches the sponsoring institution--whether in the form of increased economic activity, or by increasing the its reputation.

Traditional BPCs are usually organized by an educational institution or government economic development organization, while the prize money is usually offered by local commercial sponsors who might ultimately benefit from stimulating new venture activity in their region.

The (In)Effectiveness of Traditional Business Plan Competitions

Despite the anecdotal successes of recent business plan competitions (BPCs) and their winners, literature review on business plan operations (Ross and Byrd 2010) revealed that little scholarly attention or empirical analysis has been directed toward understanding the outcomes of business plan competitions. As contests proliferate, there is a dearth of research on their goals, characteristics, operations, and outcomes (Ross and Byrd 2011). However, a 2009 study on the importance of business plans for attractive venture capital concluded: “We find that neither the presence of business planning documents nor their content serve a communicative role for venture capitalists. With some qualifications, we find that business planning documents may serve a limited ceremonial role” (Kirsch, Goldfarb, and Gera 2009). While the number of university-sponsored business plan competitions has increased rapidly over the last decade, there is sparse evidence of BPCs’ usefulness in sorting and elevating innovative business models that drive economic development (Ross and Byrd 2012).

Business Plans, Competitions versus the “Real World”

Author, serial entrepreneur, and educator Steve Blank--one of the leaders of the recent Lean Startup movement--puts it succinctly:

“In the real world, most business plans don’t survive the first few months of customer contact” (2009). Prominent venture capitalist Brad Feld also echoes the waning importance of business plan competitions: “In the 1990s, business plan competitions were all the rage. I was a judge early on at the MIT \$10k Competition (now the \$100k Competition) and read lots and lots of business plans. By 1997, when I started investing as a venture capital investor, I was no longer reading business plans. And I don’t think I have since then” (Feld 2012).

“Today, it’s clear to me that business plans for startup companies are an historical artifact that represented the best approach at the time to define a business for potential investors. In the past decade, we’ve shifted from a “tell me about it” approach (the business plan) to a “show me” approach (the Lean Startup). Rather than write long, exhaustive documents, entrepreneurs can rapidly prototype their product and get immediate user and market feedback. They can use Steve Blank’s Lean LaunchPad approach to get out of the building and actually incorporate customer development early into the definition of their business. And they can learn the lesson we teach over and over again in TechStars — “show don’t tell.” (Feld 2012)

Regardless of any empirical data on the effectiveness of business plans or competitions on entrepreneurial success, there is a solid perception among key influencers and gatekeepers that business plans, and business plan competitions (BPCs), are irrelevant at best. Perceptions and opinions trump data in that, if investors view business plans as irrelevant, then they are indeed irrelevant. Despite there being some specific, significant, and measurable metrics indicating the success of the top BPCs, when asked to name any successful companies that were BPC winners, angel investors, venture capitalists, and other influencers could only

name fewer than ten companies over a period of three years (Quora 2013).

If key stakeholders and influencers deem business plans irrelevant to entrepreneurial success, then why are business plan competitions still being used to stimulate entrepreneurial activity? The answer may be straightforward: while the concept of the “business plan” has not changed, business plan competitions have indeed changed. As entrepreneurship has changed, and as entrepreneurs have changed, business plan competitions have evolved to stay relevant.

Evolution of Entrepreneurship

If the importance of formal business plans has diminished in the view of venture capitalists and educators, it is because the practice of entrepreneurship has undergone an evolution. With the wide availability of inexpensive product development tools, entrepreneurs can go from concept to product to market without needing significant capital, or any external capital at all. Reaching customers and large markets can be as simple as creating a website and using online social networking tools. Instead of relying on static business plans to predict and model market demand, entrepreneurs can rapidly develop iterations of their product and get feedback from customers. This is the essence of the Lean Startup methodology: iterations are paramount, and business plans are merely static documents that are obsolete the moment they are written.

If the business plan is no longer a practical tool for driving the success of a new venture, then what purpose do business plan competitions (BPCs) serve? What useful purpose did BPCs once serve for entrepreneurs that is not being served today? While there is a growing consensus that the business plan is becoming a 20th century artifact in a 21st century world, business plan competitions are still very popular with entrepreneurs, universities, and investors. What has changed?

Metamorphosis and Evolution

Joe Hurley, who runs BizPlanCompetitions.com--a site that tracks and provides information on more than 300 US competitions--observes that business plan competitions (BPCs) “are expanding to include elevator pitch contests, video submissions—new ways to present the idea rather than just the traditional business plan. [...] the goal of these competitions seems to have changed over time. At the inception, it was more of an academic exercise but now it’s about real-world start-ups and supporting those start-ups. The goal is to support the start-up of these entrepreneurs, not just the structure and components of the plan” (Maltby 2011).

The explosive growth of new style-competitions has paralleled the rise of the low-cost, rapid iteration style of the Lean Startup Methodology. These new kinds of competitions do less to celebrate the quality of the idea or of the plan while doing more to enable the entrepreneur to develop and execute the idea. One such new-style competition is for acceptance into startup “accelerators.” The first modern accelerator was [Y Combinator](http://YCombinator.com), a self-described seed stage venture fund, which [announced](#) its first batch of eight startups in 2005. [TechStars](#), [SeedCamp](#), and [Founder Institute](#) followed shortly thereafter. Each year, the accelerator trend has continued to spread both domestically and internationally (Lennon 2013).

Graduates from the top accelerators seem to enjoy their pick of VC partners. Y Combinator companies like [Airbnb](#), [Dropbox](#), [Pebble](#), and [Crowdfunder](#) raised massive Series A rounds just a few years removed from the program. According to the [New York Times](#), 72% of Y Combinator companies through 2012 raised money after their [Demo Days](#), and the majority of these companies have raised increasingly larger rounds (Lennon 2013). The growth of accelerators and incubators is clearly one reason for the record



number of angel and seed investments in 2012 (Lennon 2013).

Entrepreneurs vie for winning a spot inside an accelerator. Acceptance into a formal or semi-formal program may give a small team, for instance, \$20,000 and 3-4 months to devote full time to developing their product and business so that it can ultimately be pitched to specific venture capitalists for a significant Series A investment.

Similar hybrid models have emerged, accelerator programs that have a specific industry focus such as health technologies, sustainability, or energy. Winners of these competitions not only get seed capital as prize money, but acceptance into a program that allows them to develop their product and business in an environment where they are surrounded by experts and other entrepreneurs working in the same field.

Because of the proliferation of technologies that allow entrepreneurs to go from concept to product with trivial development costs, the trend is to eschew planning and instead stress the demonstration of the solution. As such, “demo days” and similar “pitch events” are rapidly replacing BPCs as the validating event for young entrepreneurs. It is the live demonstration of the product in front of investors that wins the competition, not the business plan.

Swinging the pendulum to the extreme is a relatively new and intensive form of entrepreneur competition called “startup weekends.” In this kind of competition, entrepreneurs meet for the first time on a Friday afternoon, develop an idea, and transform it into a product or prototype over the course of an intensive weekend. On Sunday, they pitch the idea and demonstrate the product live in front of judges for a chance at some seed capital, services, and other awards (Startup Weekend 2014).

the traditional BPC are “prize challenges,” where entrepreneurs are challenged by an organization to develop a solution to a big problem or a product addressing a big market. The winner receives significant funding and support to fully develop the product and business. The quintessential prize challenge is the XPRIZE, which has sponsored entrepreneurship challenges to develop novel solutions for space travel (Space-X), and medical technology (The Tricorder Challenge). Other notable prize challenges include the Cleantech Open, a national business plan competition for companies addressing clean/green energy and sustainable technologies.

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Last to emerge as replacements or rivals to



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	BUSINESS MODEL COMPETITIONS	ACCELERATOR COMPETITIONS	STARTUP WEEKENDS AND HACKATHONS	DEMO DAYS & PITCH EVENTS	PRIZE CHALLENGES
REASONS FOR CONDUCTING THE COMPETITION	Universities: to foster student success and ultimately to demonstrate credibility. Government: economic growth.	Evaluating the best ideas and entrepreneurs to enter "acceleration" for eventual investment.	Entrepreneurs encouraging collaboration among themselves.	Showcasing entrepreneurs and viable ventures to VCs and angel investors.	Solving big problems or addressing specific markets.
JUDGING	Faculty, local mentors, entrepreneurs, some investors	Seed-stage angel investors, successful entrepreneurs	Local entrepreneurs, local business leaders	Seed angel investors, VCs, successful entrepreneurs	Professional full time or volunteer committee. Sometimes judged by "the crowd"
STRUCTURE	Business plans submitted and reviewed. Live evaluation of finalists.	Submit basic application. Live pitch/demo at an event.	Collaborate with peers over a long weekend on a technical prototype. Demo and pitch in front of judges.	Successive rapid pitches in front of judges and audience.	Varies. Often successive judging/pitch competitions.
ENTRANCE REQUIREMENTS / CRITERIA	Business plan.	Application, team, pitch/demo.	Hands-on development skills.	Pitch, basic product demo.	Innovative prototype/product.
IDEAL OUTCOMES (FOR THE ENTREPRENEUR)	Cash prize, recognition.	Seed-capital, participation in a program. Startup development.	Team formation. Prototype development. Idea validation. Cash prize/services.	VC/angel investment. Visibility and traction.	Cash prize. Customer validation/adoption. Visibility.

Discussion and Conclusions

For entrepreneurs starting new ventures, the business plan is no longer the primary encapsulation for the quality of the idea or the business strategy. In fact, the business plan is becoming irrelevant for predicting the success of modern startups. Business plan competitions (BPCs) have evolved to reflect the decreasing relevance of the business plan, and instead focus on other ways of validating the viability of the entrepreneur's idea while enabling them to prove that idea in the market.

As the nature of entrepreneurship has evolved--embracing the Lean Startup methodology of quick deployment and rapid iterations--so have BPCs evolved. The landscape of the modern business plan competition is more like fragmentation than metamorphosis, with different styles of entrepreneur competitions matching different styles of entrepreneurs, and different styles of competitions offered to foster the diverse kinds of outcomes desired.

The new goal of entering an entrepreneur competition is not to receive validation, or even to "win," the real prize is in gaining access to a more in-depth program, to investors, to markets, or to customers. The real prize is to be given the opportunity to develop the idea. For entrepreneurs, there are no surprises. Accelerators, Startup Weekends, Demo Days, and Pitch Events are a fact of modern startup life. While entering or winning one of these competitions may not be a required step toward success for many entrepreneurs, particularly those without the experience and support networks, winning a entrepreneur competition may be the most tangible route to starting up. Gaining entrance to one of these programs by winning a competition is as powerful as getting their first customer or their first investor.

challenging situation. Business planning is a vital staple in most entrepreneurship curricula, yet the business plan is rapidly becoming an irrelevant factor in entrepreneurial success. Recognizing this, educators can better prepare student entrepreneurs to determine which (if any) of the new-style entrepreneurship competitions are appropriate strategies to pursue.

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For entrepreneurship educators, the evolution of business plan competitions presents a



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