

STUDENT BUSINESS PLAN COMPETITIONS: WHO REALLY DOES HAVE ACCESS?

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Abstract

Student business plan competitions no longer resemble a classroom project, initiated at the start of a semester, often based upon a student's original thought, and hastily submitted to a competition, more likely than not, within driving distance of your school. Today, competitors and competitions have morphed into year-long strategic initiatives reliant upon high-technology, or even bioscience research projects sought by out zealous MBA team members. Today, institutions are driven by the peer, community, and donor recognition they garner should a student team win one or more of the many prestigious competitions available. So where does that leave average schools where resources are little or non-existent, curriculum changes or expansion are not available, students lack entrepreneurial experience, access to top flight advisory boards for teams is limited, and technologies are difficult to come by, or exceed team member capabilities? Are the days of the original classroom idea or the "startup" restaurant gone?

Preface

Research by Bowers, Bowers and Ivan (2006), assessing "entrepreneurship centers measures of success" showed that 45% of respondents used "business plan competition awards" as a measure of success. Donor relations and endowments as a level of importance to the centers ranked at 58% and 49%, respectively. Four of the top seven responses to "measures of success" related directly to funding activities. In response to the qualitative section of the survey, the #1 priority for all centers was identified as funding. Ultimately, they found that seventy percent of centers participated in business plan competitions. The authors of that study acknowledged that they somewhat struggled with a correlation between resources and center success, but unequivocally asserted that "*adequate and sustainable* funding should be secured early in the development of the center." The authors also suggest that there were some limitations in their research. One of the areas that might have affected their outcomes was that center success may also be a function of the students' backgrounds and abilities. In other words, schools that attract the best students may well have better outcomes. The authors in closing point out that future research should be conducted on how a center's resources impact on center success and recognition.

From this research, it can be implied, either implicitly or explicitly, that funding plays a large role in the success of an entrepreneurship center. Another issue seemingly of great importance is the success or notoriety that a center is able to highlight with their donor base. The study implied that not only the raising of funds was important, but also, the retention of the donor base. With such a large number of business plan participants (70%) and a corresponding group indicating that success at a business plan competitions (45%) was an important measure of success, one might infer that a lack of success at business plan competitions, when judged against your peers, could be indicative of a less than successful entrepreneurship center or program.

Introduction to Competitions

Business plan competitions first started in the early 1980's at the University of Texas. Two Texas MBA students wanted to have a business school activity that was as challenging and prestigious as the law school Moot Court competitions. The competition had its first trial run in 1984 with only Texas MBA students participating in their "Moot Corp." By 1989 they had gone national, competing against teams from Harvard, Wharton, Carnegie Mellon, Michigan, and Purdue. In 1990 the competition went international with the London Business School, Lyon Graduate School of Business from France, and Bond University from Australia joining the competition. Since then, the number of competitions has increased dramatically worldwide, many of them sponsored by leading venture capital firms. (Small Business Notes, 2009)

Student entrepreneurs like these competitions because they can develop and pitch their fledgling business ideas to real investors and get professional-grade feedback. They also stand to win cash prizes -- typically, ranging anywhere from \$10,000 to \$100,000 per competition -- plus coveted business services, such as accounting and marketing help. In 2005, Rice University began offering funding in the form of equity investments pooled together by a few venture capital investors. The 2008 equity investment amounted to \$325,000 while the total prize package weighed in at a \$685,000, up from \$42,500 in 2004. The 2008 business plan competition, which took place during the first week of April, attracted 234 teams represented by 820 participants, from the U.S. and abroad, up from 120 teams or about 420 people in 2007. (Ransom, 2008)

Building the Case for Competitions

Research shows that business plan competitions provide a significant opportunity to enhance entrepreneurial education [even] within tertiary institutions. Although business plan competitions are created to primarily encourage the creation of new enterprises, participants gain important and long-lasting benefits, such as entrepreneurial skill development, increased self-confidence, and risk-taking propensity, and access to mentors and networking opportunities. This "real world", practical education is not only important in successful business start-ups; it is also in high demand from employers. (Russell et al., 2008)

Huffman and Quigley, (2002) state that competitions of this nature help promote entrepreneurship by providing an avenue for individuals with ideas and those involved with start-ups (e.g., business angels, venture capitalists, serial entrepreneurs and professionals, such as bankers, lawyers and accountants) can network to discover, develop, and exploit business ideas. Foo, et al. (2004) expanded on the prior thought by stating that business ideas are by themselves plentiful; and unless the team's idea is positively evaluated, it might not be able to attract funding or obtain access to potential suppliers and customers. This becomes a very important later in the paper as we begin to look at who really has access to business plan competitions. Dodt, et al, (1999) found that potential business innovators remain in their universities, hospitals, and research institutions, and the engine of wealth creation is never ignited, but suggests that business plan competitions are the catalyst for bringing technology out of these institutions. They go on to state, that business plan competitions have four aims:

- To motivate people to come forward with their ideas
- To build their communication skill
- To attract venture capital
- To identify service providers

An important observation by Dodt, et al, (1999) is that for a business plan competitions to be effective they must attract a sufficient number of participants; ideally at least 100. To encourage involvement, the competition must be well promoted and its threshold for admission kept low, so that even those who have never written a plan can take part. They suggest that one of the reasons that a business plan competition is in place is to allow the development of skills even of those with minimal business knowledge, and to have their reasoning tested.

Student entrepreneurs involved in the contests learn lessons from the experience and feedback. If you closely monitor the circuit of contests, you'll no doubt see some of the same teams competing in two, three or even more of these contests, sometimes over two or more academic years. If practice does not make perfect, it at least irons out some of the kinks. In fact, many students say they learn more preparing for and participating in a business plan competition than during an entire MBA program. (Cannice, 2004)

The Team

The Timmons model (1999) emphasizes the flexibility and dynamic balance of three primary elements; the team, the opportunity, and the resources from the entrepreneurial process. The model also points out that venture teams need to have creative problem solving capability in order to move on to the next stage when venture teams interact with opportunities. Wen and Chen (2007) state there are many extra little stimuli throughout the competition processes, which affect the interaction of teams towards the real world and real learning. And follows by saying, that the business plan competition process produces very real business situations, during which teams confront challenges which might be beyond their prior knowledge and experiences. Wen and Chen (2007) further observed that the key triggers for creativity come from looking for technology, writing business plans, and terminating the cooperation with the technology group. Except for the business plan, Wen and Chen (2007) contend the other two activities are unexpected and out of control. The main objective of the competition then, is to provide teams with disturbance to a certain extent, so that they can and will integrate their former knowledge and experience to respond to the environmental changes, which inspires creativity.

Overview of the Donald W. Reynolds Governor's Cup Business Plan Competition (2002-2009)

With one of the largest cash prize pools in America, the Donald W. Reynolds Governor's Cup Business Plan competition ("Competition") encourages students attending any Arkansas 4 or 2 year college or university to act on their ideas and talents in order to produce tomorrow's businesses. Over its eight year history, 1,290 students representing 19 Arkansas colleges and universities have participated in the event since it began in 2001. The students and their faculty advisors have received over \$903,000 in prize money. (Arkansas Economic Acceleration Foundation website, 2009)

In reviewing the business plan topics posted on the Competition website, at the graduate level, it becomes quickly apparent that to place in the competition requires a technology-based business. Nearly 100% of the graduate winners (first through third) since 2002 have had a significant technology component to their plans. Based upon the intricacies of the technologies (e.g., RFID, nanotechnology, biosciences, etc.) it can be assumed that most, if not all of the technologies, are beyond the scope of the technology development competencies of a typical MBA team. There also seems to be a growing emphasis on technology-based ventures at the undergraduate level with over 50% of the top three finishers having a significant technology component associated with their plan. (Arkansas Economic Acceleration Foundation website, 2009)

The Competition is dominated by a very limited number of schools. The University of Arkansas at Fayetteville (“UA”) dominates at the graduate level while John Brown University (JBU”), Harding University (“HU”), and again, UA dominate at the undergraduate level. Over the past seven years UA has placed in the top three finishers at the graduate level 18 of 21 opportunities. At the undergraduate level, JBU placed eight teams, while HU and UA each placed five teams. This means, at the undergraduate level, three schools placed 18 of 21 teams. It should be noted that UA is the flagship institution in Arkansas while JBU and HU are both private institutions.

As an example of the prolific success of a UA team, this spring (2009), the Tears of Life, LLC team from UA won first place in the graduate competition receiving \$20,000 and an additional \$5,000 innovation award at the 2009 Arkansas Donald W. Reynolds Governor's Cup. The team went on to win \$25,000 in the Donald W. Reynolds Tri-State Cup and \$1,000 for graduate elevator pitch in Las Vegas; first runner-up and \$5,000 and first place for best presentation in the Super Bowl of business plan competitions, the Global Moot Corp Competition at the University of Texas; first place and \$10,000 and second place in trade show at University of Cincinnati Spirit of Enterprise MBA Business Plan Competition; first place and \$20,000 at Tulane University Business Plan Competition. (Innovate Arkansas, 2009) And as Cannice (2004) noted earlier, this is an example of a team that has successfully entered and competed in a number of competitions over the course of a single semester.

So as teams continue to dominate what happens to the number of entrants? Here are the results of the competition submissions and University participation for the Donald W. Reynolds Governor’s Cup Business Plan Competition from 2006 through 2008:

Table 1. Donald Reynolds Governor’s Cup Business Plan Competition

	2006	2007	2008
Actual plans entered	61	58	37
Number of Universities represented	14	13	9

As you can see the number of plans entered has decreased, and of greater concern, the number of universities participating has also seen a downward trend. Some might argue that the process is self-selecting and the best competitors remain in the competition while the less competitive schools drop out. Others may contend that resource rich institutions have the wherewithal to dominate more middle of the road or tertiary institutions. This leads us to a discussion as to the impact of schools and their students not participating in competitions.

Discussion

Worldwide \$28.8 billion was invested in over 2550 venture capital backed deals in 2008 (en.wikipedia.org/wiki/Venture_capital). A 2009 report, sponsored by the Kauffman Foundation evaluated venture financing among companies on the Inc. 500 list of the fastest-growing private companies. Only 16 percent, of the roughly 900 unique companies on the list from 1997-2007, had venture capital backing. In other words, less than one-in-five of the fastest-growing and most successful companies in the US had venture capital investors. The report also noted that only a tiny percentage (less than 1 percent) of the estimated 600,000 new employer businesses created in the United States every year, obtain venture capital financing. (Kedrosky, 2009)

On a worldwide basis it is estimated that 50 million new firms are started each year. That is the equivalent of about 137,000 per day. (Mason, 2009) On a worldwide basis venture capital has less than a negligible influence on business financings. When focused upon the U.S. alone, which represents 33% of all venture capital investment (en.wikipedia.org/wiki/Venture_capital), as we have seen, very few businesses are venture capital financed. Yet, why have these types of businesses begun to dominate business plan competitions? With the exception of but a handful of competitions, most favor ideas that are suitable for venture capital investment. The venture capital community has become the cornerstone of competition judging, and in doing so, they reward those deals that have the potential to be venture capital backed. (Sauer, 2003) That same Inc. Magazine (Sauer, 2003) went on to quote Jay Ebben, professor from the University of St. Thomas, who noted that “there is concern that they [competitions] have become more of an investment competition than a business plan competition”.

It can be concluded from the data gathered from the Donald W. Reynolds Governor’s Cup Business Plan Competition that technology-focused ventures (85%) dominate the competition at the graduate level. And again, they also represent a large portion of competitors at the undergraduate level. This suggests that if the plan does not have adequate upside venture capital investment potential, it is far less likely that the plan will be selected as a top three finisher. Therefore, it can be assumed that other well-written business plans have been submitted, but as Ebben in the Inc. Magazine article pointed out, these competitions have become more of an investment competition than a business plan competition.

Earlier in the paper, this author points out numerous advantages to student participation in business plan competitions. But if certain plans on their face are disadvantage at the outset, what is the lost learning opportunity for many students? From the earlier research the following observations seem to be supported.

Foo, et al. (2004) stated that unless the team’s idea is positively evaluated, it might not be able to attract funding or obtain access to potential suppliers and customers. Foo, et al (2004) believe that students have a wonderful opportunity to gain exposure for their product or service not only for funding purposes, but also within their vertical market. In light of the data, the conclusion is that if competitions are becoming more selective based upon both quality of the business plan (which is a good criteria), and seemingly the “strength” of the underlying technology, fewer ventures whose focus is not upon obtaining venture capital types of investments, will be selected. So should fewer, “less sophisticated” plans be selected, then contrary to what Dodt, et al, (1999) suggest, business plan competitions *would not be* a place to allow the development of skills for those of minimal business knowledge, and to have [student] reasoning tested because they probably would not be selected to progress through the different phases of the competition. Competition entrants that do not proceed past the initial round, may receive feedback on the written plan, and in many instances at best, this review would be cursory. Here, the students would not benefit from the defense of the plan, explaining its assumptions, and expanding upon its particulars.

As Wen and Chen (2007) discussed, triggers of creativity come from looking for technology, writing business plans, and terminating the cooperation with the technology group. Termination of the cooperation with the technology group was identified as one of the components they

termed as being unexpected and out of control. If that is the case, a main objective of the competition is to provide teams with disturbance to a certain extent, so that they can and will integrate their former knowledge and experience to respond to the environmental changes, which inspires creativity. The termination of the cooperation with the technology group most often would occur where the team presents to the judges, separate and apart from the technology investigators (e.g., scientists, patent-holders, etc.). So again, though a plan maybe well constructed and the venture possesses a significant degree of viability, it will not be selected unless there is potential to attract venture capital investment.

Cancer treatments and nanotechnology-based business plans can fair well at competitions. But for teams assembled for the purpose of the competition, do the students have an adequate grasp of the technology and the depth of industry-specific knowledge for business launch, or is it only adequate for competition purposes? Does it then defeat the purpose, as Russell (2008) stated, that the primary purpose of competitions is to start businesses? In other words, the students can perform well for the purposes of the competition but the potential to commercialize the technology is not present. It would not support what Dodt et al, (1999) suggested in that competitions are the catalyst for bring technology out of the institution. Does today's competition environment actually work against broad commercialization?

And as observed by Cannice (2004), what you "will no doubt see some of the same teams competing in two, three or even more of these contests". A proliferation of well-resourced institutions travel the competition circuit making it more difficult for good ideas, lacking a venture capital focused, to get vetted through the competition process.

Conclusion

Creating a business plan with all the aspects of fundraising and an ultimate exit or harvest event is both challenging and stimulating. This type of preparation provides for a comprehensive learning experience, as many students say they learn more preparing for and participating in a business plan competition than during an entire MBA program. (Cannice, 2004) Would creating a plan short of seeking venture capital be less of a learning experience? I am sure some would argue yes. But the focus of business plans competitions has shifted from a broadly available learning opportunity to a venture capital-specific competition.

No longer is the standard, if you win, but how many times do you win. It has a crowding out or chilling effect. Have we reached a point where the same 100 business plans go from competition to competition? Is it the best plan that wins or now do we have the best resourced schools that have the ability to continually vet their plans across a series of competitions, as the anticipated winners? So are schools that have limited resources, or one shot at a competition, less competitive? Do donors or administration really understand the impact of the flight of today's competitions? Are they less noteworthy? Are the days of the original classroom idea or the "startup" restaurant gone? And just maybe, as the numbers are beginning to point out, some universities just opt out.

Unsolicited Commentary

It is our responsibility as university and college educators to push our students outside of the box and challenge them with situations and ideas that are foreign, and as Wen (2007) suggested, a

“disturbance”. What sits before us in the classroom is the “top” 20%, plus or minus, of learners that our country has to offer. Not that those who choose not to attend college are less capable, but some have selected this path of education as their next challenge. We would be remiss to not offer opportunities to validate and challenge their thinking, reasoning, decisions and ultimately, their work product, and in this case, their business plans. But now to offer my students that outlet, I must encourage them to select a technology, rather than to think and solve a problem for themselves. It is with great despair that I read an extremely well-written and comprehensive business plan about, for example, an “average” pet product, designed and built by a graduate student, and then having to break the news that you have little or no chance of winning the competition because your idea lacks the ability to attract venture capital financing; it’s not “sexy” enough. It does appear that the days of the original classroom idea and the startup restaurant are behind us.

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