

Section I

Preparing to Operate the Business

Planning

Everyone plans! Every businessperson looks forward in time and has in mind those things that need to be accomplished for the betterment of the business. These thoughts are specific and personal to the planner; they focus on the areas of major interest to you, rather than cover the whole business (marketing people focus on marketing, finance people on finance, etc.). Such plans are often based on “guesstimates” rather than on factual data. Unless communicated, your thoughts as the planner will not be of much use to other people in the business or serve as motivating tools for others.

Planning, which has as its prescribed end a business plan, should be practical rather than conceptual. When a business plan is written, it is available to all potential users both inside and outside the business. The process of recording thoughts causes the planner to carefully develop schedules to support any estimates or projections being made. The plan becomes a goal-setting device for the rest of the business as well.

The process of writing also spurs one to consider all areas of the organization and integrate them into the plan. The plan is available not only for internal users but also for external users, who may be considering funding the business, or for other external needs such as regulation.

A major part of the material contained in this chapter is abbreviated from E. James Burton *Total Business Planning: A Step-by-Step Guide with Forms* (3rd ed.) (John Wiley & Sons, 1999). You may wish to consult this book for a fuller discussion of various points.

There are at least seven good reasons why you need a business plan.

1. A business plan is an effective management tool for making major decisions. It sets out in detail what you intend to do and how you intend to do it, and serves as the framework for making decisions on how to accomplish the established objectives.
2. A business plan is an effective means for measuring actual performance. By comparing periodic measurements of accomplishment with expectations, you can determine how effectively the business is performing.
3. A business plan is a basis for rewarding performance. If individuals have been assigned responsibilities, and the accomplishment of those responsibilities can be measured, then appropriate and effective rewards can be determined.
4. A business plan helps motivate managers who have contributed to its development. Once a manager has “signed up” to the business plan, it is in that manager’s best interest to see to it that the plan is accomplished.
5. A business plan is an educational tool. The process of developing a business plan helps the members of the team better understand the components involved and how they work together.
6. A business plan is a means of communicating expectations and demonstrating results. It informs personnel as to what is expected of them and how they will be measured. It shows them the results of their work according to the plan.
7. A business plan is a good way to verify assumptions regarding the resources needed to run a business. For example, if the plan specifies a massive jump in sales, the plan should specify the personnel, working capital, and facilities needed to accomplish that increase, along with the funds needed to do so.

Process versus Document

Much of the value of a business plan derives from the process one goes through to develop it. A business planning process is a combination of brainstorming, daydreaming, research, analysis, communi-

cations, and position-paper writing. If implemented properly, a business planning process provides an opportunity for every level of management to be involved in determining how that business will be conducted over a period of time. A business plan has been described as a written document that spells out in detail where the company's business is and where it is intended to go. It should allow the management team to identify opportunities and threats, recognize strengths and weaknesses, reconcile conflicting views, and arrive at a set of agreed-upon objectives, goals, and tactics in a systematic, realistic manner. As one dissects the components involved in that definition, it becomes obvious that a great deal of effort and time are necessary to construct a good business plan.

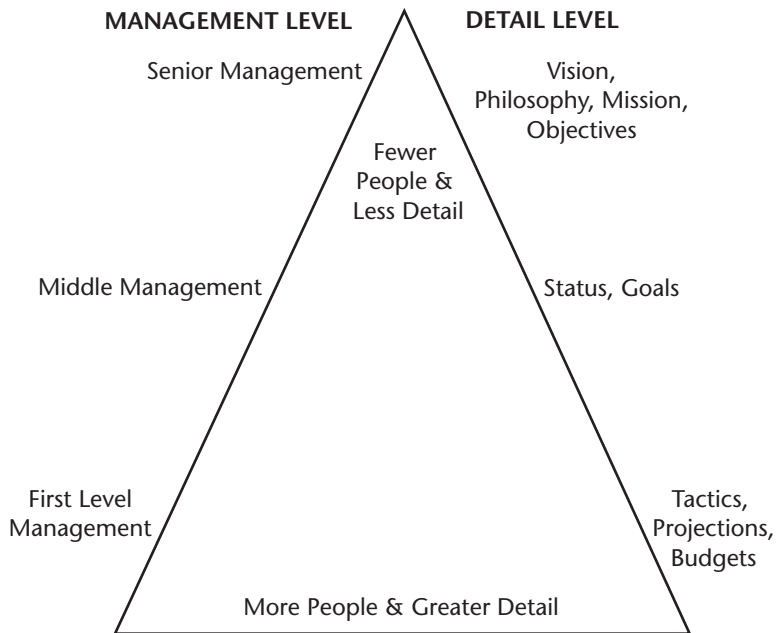
A business planning process is like a pyramid. At the top of the pyramid is a senior management team that must decide on key issues to guide the business through a long planning future. Below the senior management team is a larger tier of management. This tier expands upon the concepts put forth by the senior management team, building an increasingly more detailed plan of how these concepts should be accomplished. At each additional management level, the number of people involved increases and the planning becomes more detailed. (See Figure 1.1.)

Even in a smaller business, which may have only a few involved decision makers, the business planning process can be very revealing. As the key decision makers in the business begin to communicate their beliefs as to "what business we are in" and the philosophy under which the business ought to be run, there are often significant disagreements or misunderstandings that need to be resolved. The business planning process usually brings these misunderstandings or disagreements to the surface so that they can be worked on and a consensus can be reached.

Definitions

A common set of definitions will facilitate the understanding of the process in the plan being discussed here. The following list of terms and definitions may be helpful:

FIGURE 1.1

Planning Pyramid

Vision. The view of the future of the organization, which stresses what the visionary wants the organization to become. It is the integration and synthesis of information with dreams.

Philosophy. The set of basic beliefs that establish the parameters (boundaries of behavior) for the business and its personnel. It is a statement of what the business does and does not do. A statement of philosophy often begins with “We believe ...” and follows with “therefore ...”

Mission statement. The mission statement is the primary focus of the business and answers the question, “What business are we in?”

Strategy. A method or course of action for dealing with competitors. It can be proactive or reactive. It answers questions such as “Who else is in this business and how do we relate to them?”

Objective. Objectives are the aim or end of an action, the results to be accomplished. For the business as a whole, the objectives answer the question, “Where do we want to go?”

Status. The status is an assessment of the present position of the business and answers the question, “Where are we?”

Goals. Goals are the ends toward which a particular unit of the business strives; they are a step toward accomplishing an objective. For a particular unit of the business, goals answer the question, “Where do we, as a part of the business, want to go in keeping with the overall objectives of the business?”

Tactics. Tactics are methods of using resources to reach goals. They help to answer the question, “How do we get there?”

Projections. Projections are quantitative assessments and estimates of the results expected from the use of various tactics. These answer the question, “How will we know when we are there?”

Budgets. The quantification of the plan. It should show expected benefits (in financial terms) and the costs needed to achieve those benefits. It should be driven by the plan rather than driving the plan.

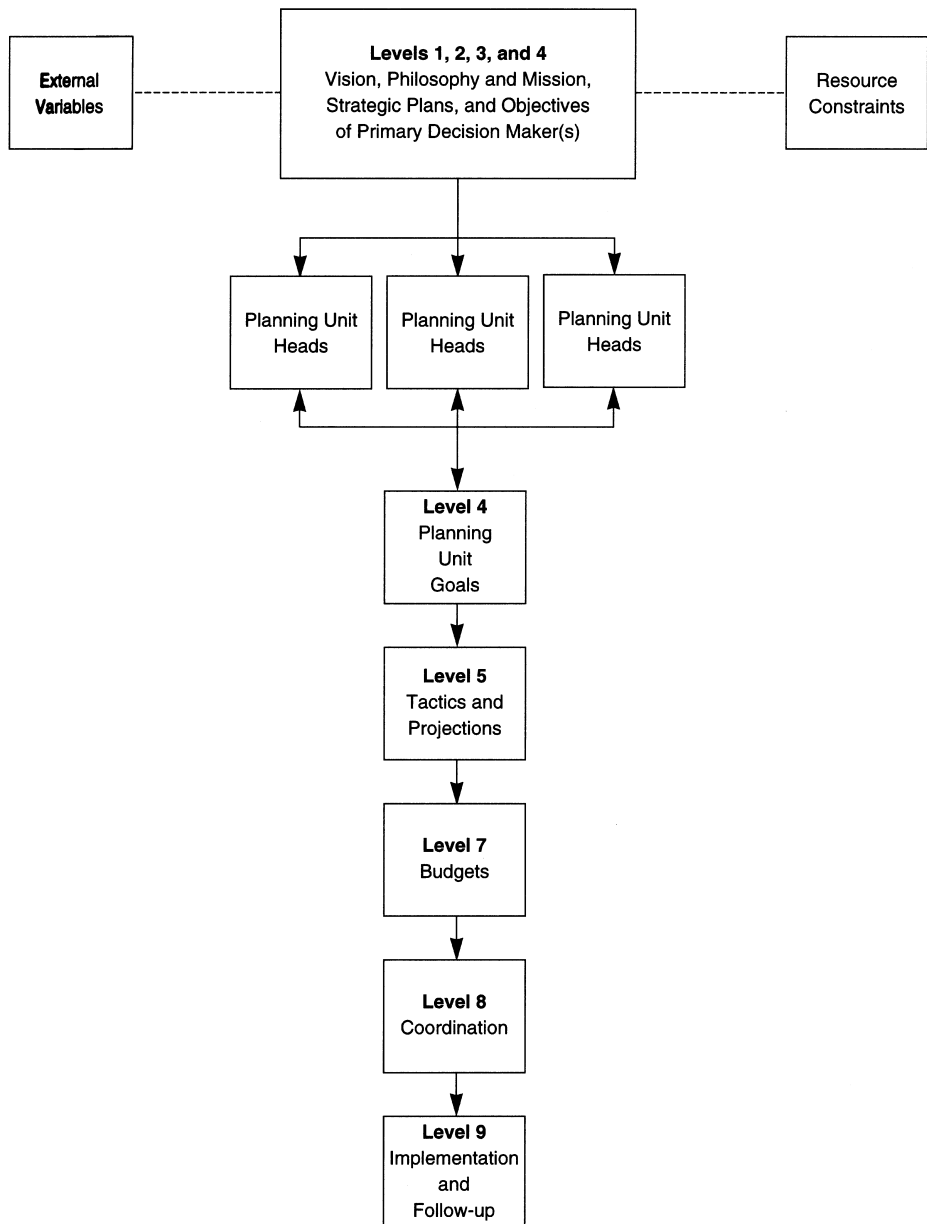
Planning Process: Levels One through Nine

Of course, you will need to modify your planning process according to the type and the size of the business involved; still, it is possible to lay out a generalized framework within which the planning process can be developed. The planning process can be thought of as a nine-level process. (See Figures 1.2 and 1.3.)

Level One

The first level in the planning process is the creation of a vision. The word *creation* was chosen with care because the visioning process is perhaps more art than science. Visioning is about seeing and becoming—seeing what others have not, cannot, or will not see and becoming what you want to become without being unduly hampered by what you already are.

FIGURE 1.2

Levels

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FIGURE 1.3

Planning Process		
Group		Level
Senior Management	Vision	1
Senior Management	Philosophy/Mission	2
Senior Management	Strategic Planning	3
Senior Management	Corporate Objectives	4
Planning Unit Management	Status/Goals	5
Planning Unit Supervisors	Tactics/Projections	6
Budget Heads	Budgets	7
Plan Coordinator	Coordination	8
Everyone	Implementation and Follow-up	9

The time horizon for a vision depends on the industry, the business, and the period in history. However, visions tend to be of closer chronological proximity than not too many years ago. Change happens too fast and there are too many uncontrollable variables for many people to be comfortable looking much past five years into the future. Creating and accomplishing a vision requires both passion and hard work and there are really no good models because each is, by nature, quite distinct.

Visions are often the work of a solitary visionary, but they need not be so. In fact, if a group can create the dream, you are actually ahead of the game because there are fewer people to whom you will have to sell the vision. Usually, the vision comes from the senior management group. It cannot be rushed, and it normally cannot be confined to a specific time frame. It develops at what appears to be its own pace. However, spending focused time considering the vision will improve the possibility of actually articulating one. There are some visioning questions in Appendix A at the end of this chapter.

Level Two

The second level in a planning process is the development of the philosophy and mission of the business. Often, management of the

business will have unpublished philosophy and mission statements. For the long-range growth and development of the business, it is important that each of these items be specifically developed and written down so that they can be used by other people within the business for guidance.

The development of the philosophy and the mission statement are the responsibility of the senior management team. The senior management team (even if it consists of only one person—you) should take the time to consider the development of the philosophy and the mission statement in written form. There are forms and questions in the appendices to this chapter that will be helpful in the development of a philosophy statement and a mission statement.

Level Three

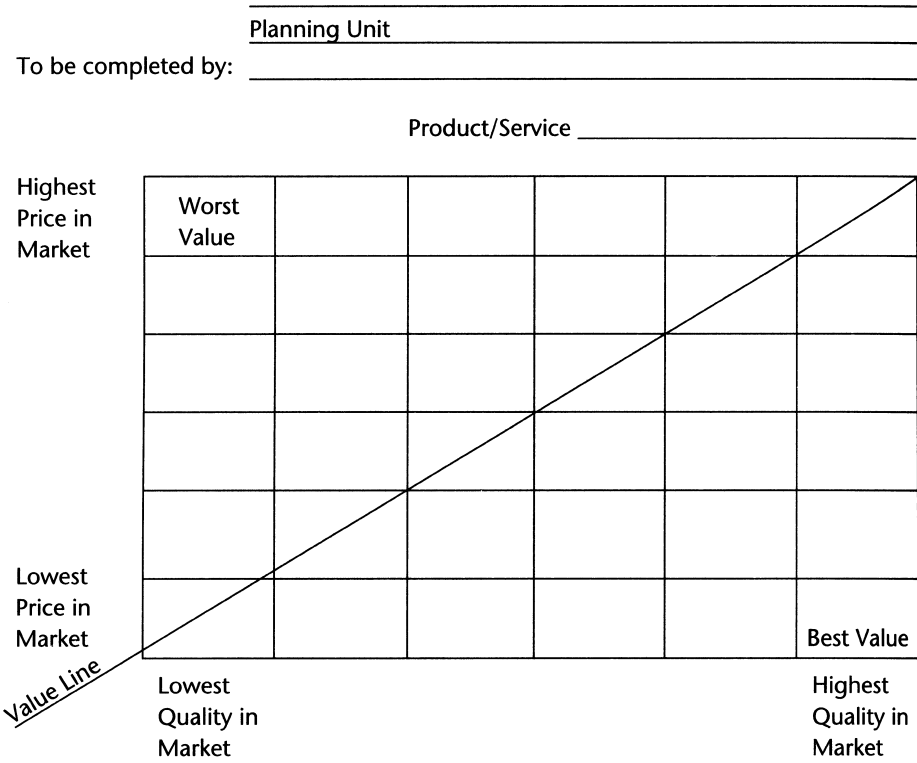
The strategic planning portion of the planning process focuses on how to position a company within a market, based on the presence, market position, and strategic advantages of other competitors in that market. Here are some of the issues to consider, which should be noted in summary format in the form shown in Figure 1.5:

- *The market positioning of other companies.* Within each market, there will be a few larger companies, such as Wal-Mart, that are squarely positioned to sell in large volumes and use volume-related efficiencies to drive down costs and prices. Around these companies are positioned others that service specific market niches, such as Rolex for high-end watches. These niche companies are either positioned to provide very high levels of service, or attend to the needs of specific geographic locations that are not serviced by anyone else, or are protected by patents or copyrights, and so can provide a specific product with impunity until their legal protection runs out. A company must survey the strategic landscape to see what competitors occupy each of these portions of the market and decide where it can most profitably find a place. (See Figure 1.4.)
- *Market moves being made by competitors.* The strategic landscape is never quiescent. Instead, companies are constantly acting to shift the competitive situation in their favor, to which other companies must respond, which creates further changes in the situation. If a

FIGURE 1.4

Product Matrix Analysis

Value Analysis Grid



Indicate your idea of where your company’s products or services fit in the grid by placing an * in the appropriate box. Indicate where competitors’ products or services are on the grid as well.

Source: E. James Burton, *Total Business Planning: A Step-by-Step Guide with Forms* (3rd ed.) (New York: John Wiley & Sons, 1999). Reprinted by permission of John Wiley & Sons, Inc.

company has good sources of marketing intelligence, it can take advantage of the moves made by other companies to improve its own positioning. For example, if it knows a competitor has just been purchased and the new owner is unwilling to invest in the business, or if the competitor has just acquired a large amount of debt to fund an internal management buyout, then the company

FIGURE 1.5

Strategic Factors Analysis

[illegible]

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can probably gain an advantage, by either rolling out new products or starting a price war, because it knows the competitor does not have the wherewithal to respond to these competitive moves. (See Figures 1.5 and 1.6.)

FIGURE 1.6

Strategic Factors Analysis—Suggestions for Use

1. Identify specific customer/client or a specific customer/client group. Insert in upper left corner.
 2. Identify specific product/service to be offered. Insert in upper right corner.
 3. Identify the strategic factors considered important to the identified group in suggestion 1. Enter these as column headings along with *Price*, *Quality*, and *Delivery*.
 4. Rank these strategic factors in order of importance, and enter your numerical results into the column headings labeled *Rank*.
 5. Compare answers with others and attempt a consensus.
 6. List yourself as the first entry under *Companies*; then, in descending order of market share, continue with a list of your competitors.
 7. Compare answers with others and attempt a consensus.
 8. Insert numbers into the matrix indicating each competitor's ranking with respect to each strategic factor.
 9. Compare answers with others and attempt a consensus.
 10. Identify rankings which are likely to be subject to attempts at change or which may be likely to change due to economic environment factors. Identify direction of such changes with arrows.
 11. Compare answers with others and attempt a consensus.
 12. In the space provided, write a short summary of the above described situation.
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Source: E. James Burton, *Total Business Planning: A Step-by-Step Guide with Forms* (3rd ed.) (New York: John Wiley & Sons, 1999). Reprinted by permission of John Wiley & Sons, Inc.

- *Changes in customer requirements.* It is possible that customer requirements that drive the positioning of companies within the market will change from time to time, which can upset the relative positions of the companies in the market. For example, when personal computer (PC) users decided that it was acceptable to order computers directly from the manufacturer, Dell Computer was perfectly positioned to take advantage of this shift, vaulting it past Compaq and IBM to become the largest PC manufacturer. Also, a company can deliberately cause these changes in customer requirements by developing alternative products, features, delivery systems, or other improvements from the customer's perspective, and then marketing these changes to customers until they adopt them en masse, which forces competitors to follow suit. (See Figure 1.7.)

FIGURE 1.7

Strategic Plan of Action

With specific reference to your competitors, what do you most want to accomplish?
(State the accomplishments as specific results.)

1. _____

2. _____

3. _____

What course of action will you follow to cause these to happen?

1. a. _____

- b. _____

- c. _____

2. a. _____

- b. _____

- c. _____

3. a. _____

- b. _____

- c. _____

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Level Four

Objectives are the key accomplishments that you have set out for the business as a whole during the planning period. It is probably best that no more than four key objectives are stated. If you are able to find the resources to commit to the accomplishment of four significant objectives, and if those objectives are attained in any given period, the business will have had a very good year. By limiting the number of objectives, you will be able to focus on the most important aspects of your undertaking and avoid dissipating your resources.

There is an alternative approach to setting objectives that emphasizes keeping a company's options as wide open as possible by dabbling in a wide range of opportunities; this approach is the reverse of the normal one, which is a tight focus on a small cluster of objectives. This more wide-ranging approach is most useful in industries in which new technologies and niche markets are appearing at a rapid rate. Examples of such industries are cable television systems, fiber-optic data transmission, and any high-technology sector. In these areas, a company cannot possibly anticipate where the most profitable sectors of the market will be in a few years, so they place small investment "bets" on a number of widely varying opportunities. This approach is designed to keep a company in a position to capitalize on its investments or internal research in a number of different areas, while keeping its overall investment as low as possible. Then, when the direction in which the market is turning becomes more clear, the company can drop its investment in those opportunities that are being bypassed by the market and channel more funds and other resources into those areas that lie more squarely in the market's path. Accordingly, this approach is typified by a large number of objectives being pursued at the same time, with frequent reviews and reshufflings of them, in order to match the company's portfolio of ongoing projects and investments to the most recent market developments. (See Figures 1.8, 1.9, and 1.10.)

Level Five

At the fifth level of the business planning process, additional tiers of management are brought in. With a clear explanation from senior management of the philosophy/mission, strategic plans, and objectives

FIGURE 1.8

Product Planning Record

		Planning Unit				
To be completed by:						
Product		For Year of 20__				
		Year				
				Present		
1) Units Sold	—Actual					
2)	—Projected					
3) Unit Sales Price	—Actual					
4)	—Projected					
5) Unit Variable Cost	—Actual					
6)	—Projected					
7) Unit Gross Margin	—Actual					
8)	—Projected					
9) Total Revenue	—Actual					
10)	—Projected					
11) Promotion Expense	—Actual					
12)	—Projected					
13)						
14)						
15)						
16)						

Problems may be indicated by:

- Declining number of units sold
- Declining total revenue
- Declining margins
- Increasing price reductions to maintain sales
- Increasing costs as a percentage of sales
- Increasing promotion expense as a percentage of sales
- Significant variances between actuals and projections

Source: E. James Burton, *Total Business Planning: A Step-by-Step Guide with Forms* (3rd ed.) (New York: John Wiley & Sons, 1999). Reprinted by permission of John Wiley & Sons, Inc.

FIGURE 1.9

Salesperson’s Sales Forecast for 20XX

Planning Unit

To be completed by:

CustomerSalesperson

Units Projected

Product(s)	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Annual
Totals					

- Summarize by division
- Summarize by product

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of the business, the other managers will be able to assess their present condition (status) and determine the goals for their particular parts of the business. Their goals should support the corporate objectives. Clear statements of these goals are very important to help additional people in the units determine how to meet the objectives.

Level Six

At this point in the planning process, the largest number of people in the business are brought into the process. The people who have to make things happen within the departments should be involved in establishing the “How do we make them happen?” and “What does it look like when they have happened?” parts of the plan. This should be an opportunity for the personnel in the business to put their creativity to use, to look at a number of different tactics, and to examine what the results of using those various tactics will be.

Level Seven

The seventh level of the process is budgeting—both operational budgeting and financial budgeting. Two people—the person charged with facilitating the business plan and the person charged with producing the master budget—often lead this process.

Although the budgeting process is likely to be somewhat specific in every different organization, there are some portions of the process that are reasonably common. Generally, the process starts with a look at the revenue expectations. The things that are in the first six levels of the plan should influence those expectations significantly. From here, the cost budgets can be prepared—cost of goods sold (or services provided) and the operating expense budget, including personnel. (See Figure 1.11.)

The capital budget should also be based on the plans prepared in the first six levels. Those plans should lead to a determination of equipment needs, construction needs, and all of the other items normally found in the capital budget.

With the revenue and expense budgets and the capital budget in place, one can determine a cash budget as well as a pro forma income statement and balance sheet. This will be the quantification of the

FIGURE 1.11

Key Segment Personnel Projections			
Planning Unit			
Position Title	Number of Employees		Increase (Decrease)
	Current Yr. 20XX	Planning Yr. 20XX	

plans laid out in the first six levels. The detail necessary to accomplish this is too much for this abbreviated discussion.

Level Eight

Ultimately, it is time to take all of the information you have gathered and to put it into a final document. This is the process of coordination.

In the development of the objectives and goals of the business, all participants should keep in mind the eight characteristics of well-stated objectives and goals.

1. *Consistent.* Objectives and goals should be consistent with all of the planning levels previously described as well as any other stated objectives and goals.
2. *Clear.* Objectives and goals should be stated in such a way that the reader understands the writer's intentions.
3. *Concise.* Objectives and goals should focus on one and only one issue so as to avoid confusion and conflict.
4. *Actionable.* Objectives and goals should be stated in such a way that permits specific actions to be taken toward their accomplishment.
5. *Measurable.* Objectives and goals must be subjected to performance standards and, if possible, those standards should be stated in quantitative terms.
6. *Monitorable.* Objectives and goals should be broken into specific segments so that they can be evaluated periodically for accomplishment.
7. *Positive.* Objectives and goals should be stated in active, not passive, terms.
8. *Motivating.* Objectives and goals should have an element of vision and commitment so that they motivate personnel toward higher accomplishment levels.

Level Nine

Implementation and follow-up are critical. Without diligent and prudent implementation, the best plans are to no avail. Therefore, a major part of the planning effort must be devoted to how to make it happen, how to know if it is happening, what to do if it is not happening, and

what rewards are appropriate for those who make it happen. These should not be afterthoughts but rather part of the plan.

Although much of the foundational planning occurs at the top of the organization, the majority of the implementation occurs at the “bottom,” on an individual basis. Each person must know exactly what is expected of him or her by what date, and how it will be measured. Figures 1.12 and 1.13 are a part of a system devised by the authors for this purpose.

Figures 1.14 and 1.15 are also a part of that system. These are designed to quantify, to the maximum extent possible, the planning outcome expectations. Having a quantitative measurement system allows everyone to grasp quickly how well they are doing against plan and to note where adjustments are needed.

Results can be noted at the individual level, the unit level, and the organization level. Figure 1.16 shows a sample outcome from the quantitative measurement at the organization level.

Putting the measurement in graphic form, much like the standard United Way barometer that is so often used to note progress toward a contribution goal, is very effective. Figure 1.17 illustrates how this is done using the numbers from Figure 1.16.

Following Figure 1.17 is the outline of a business plan. For your specific purpose, you may reorganize, add to, or delete sections of this outline. However, this will serve as a guide for the plan you want to put together.

FIGURE 1.12

Individual Performance Expectations—Summary of Tactics/Action Steps Assigned

Name: _____

Department: _____

Page __ of __

Acknowledged by: _____

Date: _____

Goal ID #	Tactic/Action Step Assigned	Completion Date	Evidence of Completion

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FIGURE 1.13

Individual Performance Expectations—Instructions

Due Date

Planning Facilitator

Each Responsible Manager should complete an Individual Performance Expectations (IPE) sheet for each employee to whom one or more Action Steps has been assigned for one or more Goals.

Primarily, the IPE sheet is a consolidation of information from the Goal Action Plan Sheets. It is intended to help the employee and manager understand and track the Tactics/Action Steps for which an individual is responsible.

As the Responsible Manager, you should:

1. Complete the Name and Department information.
 2. List the Goal ID #, the Tactic/Action Step Assigned, the Completion Date by which this step should be done, and the Evidence of Completion for *each* item assigned to this person. This information can be taken from the Goal Action Plan Sheets.
 3. Complete the "Page __ of __" indicators for each page for each person.
 4. Give a copy of each Employee's IPE to that Employee and discuss the expectations.
 5. Have each employee sign and date (Acknowledged by and Date) the original IPE and return it to you. The employee should retain a copy.
 6. Keep a copy and give the original to the Planning Coordinator by the Due Date.
 7. At least quarterly, review the IPE sheets with each of your employees as a part of the plan progress review.
-

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FIGURE 1.14

Goal Weighting and Progress Chart

FYE: _____

Due Date

Planning Facilitator

Please complete the indicated columns and return to the Planning Facilitator on or before the Due Date.

Columns to be Completed

Responsible Person: _____

1	2	3	4	5	6	7	8	9	10	11	12
---	---	---	---	---	---	---	---	---	----	----	----

Corp. Obj. No.	Weight to Objective	Goal No.	Weight to Goal	Cumulative Completion Percentage*							
				Exp. 1st Qtr.	Act. 1st Qtr.	Exp. 2nd Qtr.	Act. 2nd Qtr.	Exp. 3rd Qtr.	Act. 3rd Qtr.	Exp. 4th Qtr.	Act. 4th Qtr.
										100%	
										100%	
										100%	
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										100%	
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										100%	
										100%	
										100%	
XX	XX	XX	100%	XX	XX	XX	XX	XX	XX	XX	XX
Col	Col	Col	Col	Col	Col	Col	Col	Col	Col	Col	Col
1	2	3	4	5	6	7	8	9	10	11	12

*Exp = Expected at beginning of plan year *Act = Actual at end of quarter

Expected columns to be completed fully. Actual columns to be completed at the end of the quarter.

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FIGURE 1.15

Goal Weighting and Progress Chart

FYE: _____

INSTRUCTIONS

Due Date _____

Planning Facilitator _____

You have received a summary of all the Goals for your responsibility area with a Goal Identification number assigned and a Goal Weighting and Progress Chart listing all your Goals by Identification Number. If this is not so, please contact the Planning Facilitator immediately.

The Goal Listing Sheet is a summary of the Goals you have established for yourself and your responsibility area. It is for your information.

Goal Weighting and Progress Chart Instructions:

1. Columns 1, 2, and 3 have been completed for you.
2. Looking at your Goal Listing Sheet and considering the weight assigned to the related Corporate Objectives, (Col. 2), assign a weight (portion of 100%) to each listed Goal. Place the assigned weight in Col. 4 beside each Goal number (Col. 3).
3. Note that the sum of all Goal Weights for your Department must be 100%.
4. For each listed Goal, complete Cols. 5, 7, and 9 with the **cumulative** percentage of that Goal which you plan to attain by the end of the indicated quarter. Note that Col. 11 already indicates the planned cumulative percentage completion at the end of the 4th quarter to be 100%.
5. The same sheet will be used at the end of each quarter for you to record the Actual Completion of each Goal. However, at this time, Cols. 6, 8, 10, and 12 should be left blank.
6. When you have completed the above, make a copy of this sheet for your records and return the original to the Planning Facilitator by the Due Date above.

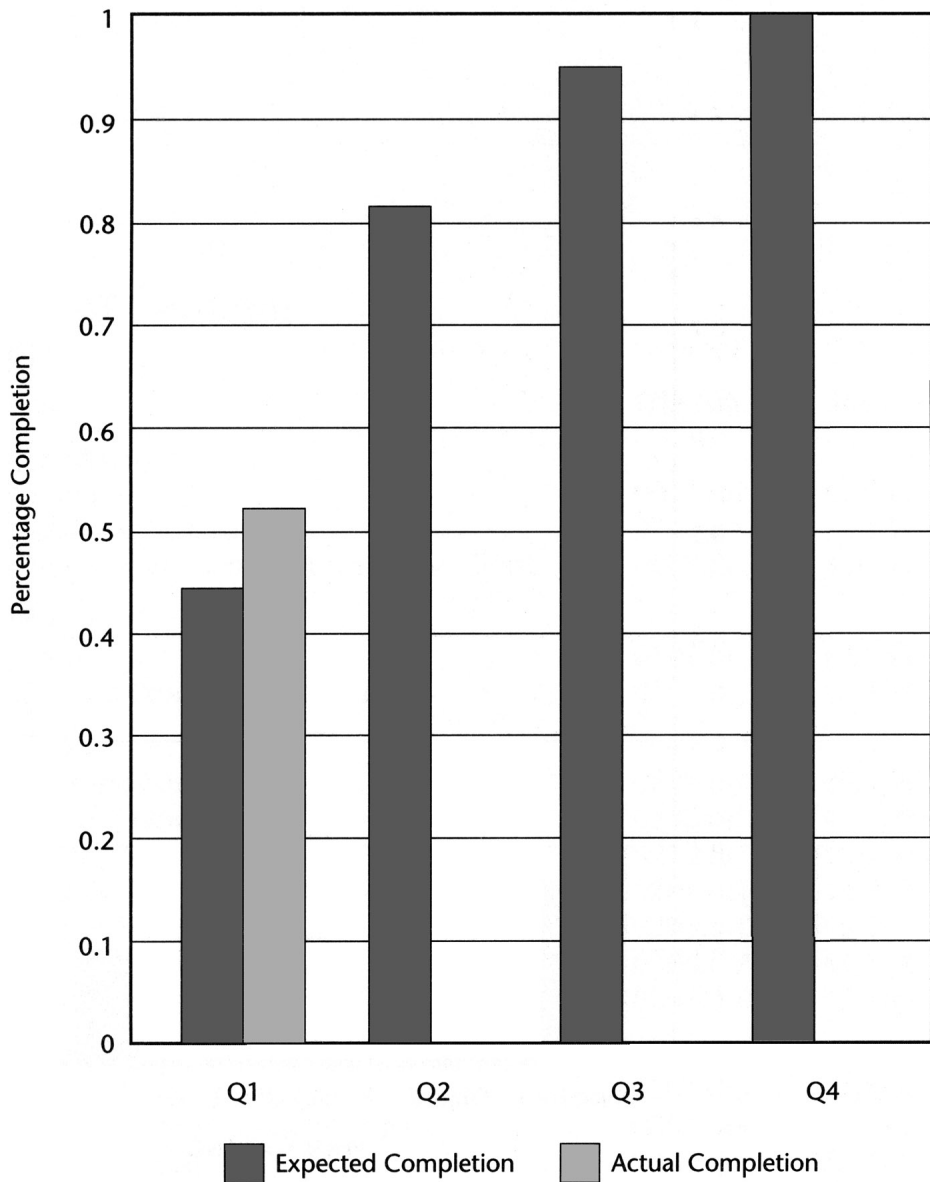
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FIGURE 1.16

Sample Outcome

Objective	Weight	Relative Completion	Year-end Weighted Completion	Variance
Objective 1	20.00%	82.67%	16.53%	−3.47%
Objective 2	30.00%	100.00%	30.00%	0.00%
Objective 3	40.00%	60.00%	24.00%	−16.00%
Objective 4	10.00%	100.00%	10.00%	0.00%
Total	100.00%		80.53%	−19.47%

FIGURE 1.17

Comparison of Expected to Actual—Sample

Source: E. James Burton, *Total Business Planning: A Step-by-Step Guide with Forms* (3rd ed.) (New York: John Wiley & Sons, 1999). Reprinted by permission of John Wiley & Sons, Inc.

BUSINESS PLAN OUTLINE

1. *Cover sheet* (with appropriate descriptions):
 - Business name
 - Business address
 - Business phone
 - Principals
 - Date
2. *Sign-up page*. Every manager who helps make the plan should sign it, thereby encouraging commitment to the plan.
3. *Executive summary*. This is what sells someone on reading the remainder of the plan. It should be about two double-spaced, typed pages and contain the essence of the plan. *Remember*: Consider for whom it is written, what is being requested from them, and why they should be interested in doing it.
4. *Table of contents*. Make it specific and complete. Some readers may judge the completeness of the plan from the detail provided in the table of contents.
5. *Major assumptions*. Any assumptions vital to the plan should be stated here. Also include brief contingencies for actions to be taken if the assumptions are violated.
6. *Background section*. If this is a start-up venture, a brief explanation should be made of how the idea (project, product, new territory company, etc.) originated. If this is an operating plan, this section may supplement the major highlights with additional detail in an appendix.
7. *Definition of the business*. It is important that you be able to state succinctly what the business is. This is distinct from what the business does (a listing of functions, products, or services), and should be geared to answer the question: *What need are we meeting?* The philosophy and mission are placed here.
8. *Definition of the market*. Having stated *what* need you are fulfilling, you can now define *who* has that need. Your definition will indicate the target of your marketing effort and will give demographic characteristics. Your market penetration projections should be included along with an analysis of the competition. Your strategic planning assessments will be placed here.
9. *Description of products or services*. Identify needed products or services. The description(s) of the product or services should fully explain to the reader why, given the previously stated information, your products or services will be demanded. You may append catalog sheets, pictures, and so forth. Basically, this is psychographic information—why people will buy your products or services.
10. *Management structure*. Having described the business, the market, and the product, it is time to indicate who will make things happen. A start-up or financing plan will require more detail than will an operating plan. Resumes and other details of personal backgrounds should be left to an appendix. This section should sell two things: *that you have the right people* and *that they are properly organized*.
11. *Objectives, goals, and tactics*. State what you intend to accomplish and how. Include varying amounts of detail based on the purpose of the plan, but focus this section on the “crunch factors.” Much of the detail can be placed in the

appendices. Areas of objectives or goals to be covered in this section include (but are not limited to):

- a. Sales forecasts.
- b. Marketing plans.
- c. Manufacturing or servicing plans.
- d. Quality assurance plans.
- e. Financial plans.

12. *Financial data.* The plan is future oriented. Therefore, this section should focus on projections and pro formas. Historical financial information necessary to understanding the plan should be referenced in an appendix. The items to be included are:

- a. Cost-volume-profit analysis.
- b. Income projections—pro forma:
 - Monthly for planning year
 - Quarterly for second year
 - Annual for third year
- c. Cash flow analysis—pro forma:
 - Monthly for planning year
 - Quarterly for second year
 - Annual for third year

Appendices

Appendices give supporting detail to the content section as well as adding material of interest not otherwise included. If there is proprietary information (patent, research and development, formulas, market research, etc.) the distribution of which you may wish to control, it would be wise to place that information in detachable appendices to include:

1. Narrative history of the company.
2. Management structure (additional resumes, organization charts, etc.).
3. Detail of objectives, goals, and strategies:
 - Products and services
 - Research and development
 - Marketing
 - Manufacturing
 - Administration
 - Finance

4. Historical financial information (three to five years if possible).
5. Tax returns (three to five years if possible).
6. Letters of recommendation or endorsement.
7. Report forms and schedules.

Plan Verification Steps

Having completed the plan, one should first review it for inconsistencies prior to finalizing it. In this section, several areas in which plans commonly have shortcomings are noted. They are as follows:

- *Sales.* The most common reason why so many business plans closely resemble science fiction is that management has not carefully reviewed the basis for its sales predictions. Because sales volume forms the basis for many other company activities, such as purchasing levels, staffing, and investments in facilities, the verification of prospective sales information must be as detailed as possible. This should include not only the volumes of expected sales in units, but also the incremental price points at which those sales are expected to occur. When reviewing this information, verify the extent to which the company expects to change its market share; a large increase in sales probably necessitates an increase in market share (unless the market itself is increasing), and grabbing more market share can be quite a difficult endeavor to accomplish. If the forecasted sales level on which the plan is based is substantially higher than sales from the prior year, then it is best to factor into the plan a secondary level of greatly reduced activity, in case some or all of the extra sales do not actually materialize. This usually involves shifting most planned activities that require funding to as far in the future as possible, while implementing noncash activities as soon as possible.
- *Capacity.* The scope of expansion outlined in a business plan may not be achievable, given the current capacity of company facilities and equipment. Unfortunately, this major item is sometimes not considered when the plan is being assembled. At its worst, this can result in new sales for which a company has no way of meeting its production requirements, which has the additional result of rapidly increasing shipment backlogs, dissatisfied customers

(because they are not receiving shipments on time), and rush charges to obtain the machinery and facilities that should have already been outlined in the plan. Accordingly, the capacity levels specified in the plan should be reasonable, assuming an adequate amount of machinery downtime for maintenance, and use run rates that are based on historically accurate information. This analysis may result in additional funding requirements to obtain more facilities and machinery.

- *Funding.* Many activities in a plan require funding. These can be capital expenditures, payroll costs for new employees, or additions to working capital. Whatever the reason, the plan will be inoperative if there are not enough available funds to complete the plan's goals. Accordingly, the plan should include specific targets for obtaining either equity funding, debt financing, or increased cash flows from internal operations. These cash inflows should coincide with or precede any activities that require funds, so the timing of these activities is critical.
- *Working capital.* A major increase in sales volume will have a major impact on a company's investment in accounts receivable and inventory, since these two assets will increase to service extra sales. For example, if invoice payment terms are 30 days, then any increase in sales volume must be funded by the company for 30 days before customers pay for the invoices. When sales increase markedly, a company that does not properly plan for the coincident increase in working capital will find itself suddenly short of cash. To avoid this, the plan should include either the acquisition of debt or equity or a change in the method of operations that results in either shorter invoice payment terms or a better inventory management system, such as material requirements planning (MRP) or just-in-time (JIT), which require a smaller investment in inventory.
- *Inconsistent goals.* Individual employees will generally notice if their portions of the business plan contain inconsistent goals, and will tell the management group, which can make the necessary alterations to the plan. However, this is not so obvious when inconsistent goals are spread among different people or departments. For example, the accounting staff may be asked to reduce the amount of bad debt, which it does by cutting back on the credit

levels granted to customers. However, this goal goes directly against the wishes of the sales staff, if that department has been given the goal of increasing the average amount of sales to existing customers. Such offsetting goals can cause strife between departments and certainly do not contribute to the accomplishment of corporate goals while managers bicker. Fixing this issue requires a careful comparison of all goals that have been laid out within the plan and should involve the review of all department managers, because they are in the best position to see if some other part of the company will be working on conflicting activities.

- *Prioritization of goals.* In any plan, there are a few extremely important goals and a number of others that are not so critical to the accomplishment of a company's key objectives. If the senior management group does not prioritize these goals for the people who must complete them, then the lower-level people in the company are forced to guess which ones to complete first, and their order of priority will probably not match the one that the senior management team would assign. Also, the staff may assume that all goals are due for completion immediately if they are not prioritized, which will cause them to put off other key tasks until the goals are done. Finally, some goals may be contingent on the earlier completion of other goals, so some employees may find that goals they have already accomplished must now be redone, based on the later completion of other goals whose results were supposed to feed into their work. The senior management group can eliminate all of these issues by setting clear priorities regarding the order of completion of specific tasks.
- *Capacity to complete goals.* If the staff is inundated with goals to accomplish, they may become so overwhelmed that no goals will be completed, they will be drastically delayed, or the staff's current work will suffer while they strive to complete the extra work. To keep these things from happening, one should carefully review the time needed by the people to whom goals have been assigned to see if they can realistically accomplish the work they have been assigned. If not, then either the number of goals must be scaled back or extra personnel should be hired to take on the extra work.

Summary

Planning is a function carried out in varying degrees by people as individuals as well as people banded together to form organizations or businesses. Most plans are conceptualizations of what a person intends to do in the short- or long-term future. A business plan operates in the same manner. Unless written, however, the plan may be of little use externally or even internally. The physical process of writing a plan encourages consideration of most of the elements of a good plan.

Creating a business plan is an ongoing, continuous process, the implementation of which will determine how the business will be run over time. The plan should be originated from the top down, with upper management providing direction and objectives and lower levels of management fleshing out detail and definition.

The step-by-step generation is done in nine levels. Level one is the creation of a vision of what the business can and should become. Level two is the development of philosophy/mission. Level three is the strategic assessment of the competitive environment. Level four is the statement of the major objectives for the firm or business. Level five is the setting of the goals for the particular parts of the business. Level six is the assimilation of the people who have to execute the plan to establish how it will be made to happen. Level seven is the generation of the budgets to show the financial picture coincident to the plan. Level eight is the generation of a tangible document, formalizing the plan as envisioned. The objectives of the business should be consistent, clear, concise, actionable, measurable, monitorable, positive, and motivating. Level nine is implementation and follow-up on what has been planned.

While there is no set format for a business plan, many text writers offer a variety of suggestions. What they all seem to have in common is a structured format for the presentation of how the business got here, what assumptions were being made, where it intends to go, and how it expects to get there.

Remembering that the business plan may also serve the purpose of trying to “sell” the business to bankers, investors, and potential trade creditors, it is best to write for the specific audience expected

to read the document. You may wish to tailor a version of the plan to the specific audience. This can be done by changing the emphasis and detail in certain parts of the plan. If, for example, the business is seeking a short-term loan from a bank, the firm's liquidity and cash flow prospects should be emphasized (especially if they are favorable).

Appendix A: Visioning Questions

1. What are our current core competencies _____

2. What can we leverage to build our future? _____

3. How will the political environment in which we operate change in the next 10 years, and what impact will this have on our organization? _____

4. How will the business environment in which we operate change in the next 10 years, and what impact will this have on our organization? _____

5. What technological changes will impact our organization? What will these changes do to us? _____

6. How can we capitalize on them? _____

7. Who are the people that will lead the organization over the next 10 years? _____

8. What are their best skills? _____

9. Where will they want to take the organization? _____

10. How big should the organization be? _____

11. What resources will be necessary to achieve this size? _____

12. What knowledge and skills do we organizationally possess that produce a competitive advantage for us? _____

Source: E. James Burton, *Total Business Planning: A Step-by-Step Guide with Forms* (3rd ed.) (New York: John Wiley & Sons, 1999). Reprinted by permission of John Wiley & Sons, Inc.

Appendix B: History Questionnaire

To be completed by: _____

Completing these questions will help to show how we became what we are and why we are positioned to do what we have planned to do. _____

1. Date of company's founding. _____

2. Original founder(s) of business, name of business, location of business, and purpose of business. _____

3. Changes in name, location, and/or purpose, along with corresponding dates.

4. Major economic or environmental events which have affected company.

5. Dates and explanations of major additions to or divestitures of business.

6. Major obstacles and problems the business has faced. _____

7. Turning points causes of greatest periods of growth and profitability.

Source: E. James Burton, *Total Business Planning: A Step-by-Step Guide with Forms* (3rd ed.) (New York: John Wiley & Sons, 1999). Reprinted by permission of John Wiley & Sons, Inc.

Appendix C: Status Quo Questionnaire

To be completed by: _____

1. If the company operates in the coming year in the same manner as this year, identify those areas under your budgeting control (budget lines) which:

- a. Must be increased

- b. Could stay the same

- c. Are targets for cost reductions

2. Again assuming the present methods of operations:

- a. Identify two conditions over which you have little control that keep your area from making a greater profit contribution.

- b. State two changes which you have (or can get) authority to initiate that should make your area more profitable.

- c. By what date(s) could the above changes reasonably be made?

Source: E. James Burton, *Total Business Planning: A Step-by-Step Guide with Forms* (3rd ed.) (New York: John Wiley & Sons, 1999). Reprinted by permission of John Wiley & Sons, Inc.

Appendix D: Thirty Questions to Assist With Strategic Planning

1. Who are our five major customers (or classes of customers)?

- a. _____
- b. _____
- c. _____
- d. _____
- e. _____

2. What are the common characteristics of these five?

- a. _____
- b. _____
- c. _____

3. Why do they buy our product?

- a. _____
- b. _____
- c. _____

4. Who are three potential customers (or classes of customers) who do not currently do business with us?

- a. _____
- b. _____
- c. _____

5. Why don't these three do business with us?

- a. _____
- b. _____
- c. _____

6. Are there any obvious ethnic, age, religious, gender, or other biases in our customer base?

- a. _____
- b. _____

7. What is our most effective sales channel?

- a. _____
- b. _____
- c. _____

8. What products are our three greatest revenue producers?

- a. _____
- b. _____
- c. _____

9. What products are our three greatest profit producers?

- a. _____
- b. _____
- c. _____

10. If customers could not buy what we sell (even from a competitor) what would they do?

- a. _____
- b. _____
- c. _____
- d. _____
- e. _____

Demographics—Who buys?

11. Are our products purchased primarily by any particular age group?

12. Are our products purchased primarily by any specific ethnic group?

13. Are our products purchased primarily by one gender?

14. Are our products purchased primarily within any geographic area(s)?

15. Are our products purchased primarily by any income level group?

16. Are sales of our product(s) tied to sales or use of any other products?

17. Are sales of our product tied largely to any occupational category?

18. What is the education level of our primary purchasers?

19. Who (according to the above categories) are the heaviest users of our products?

Psychographics—Why do they buy?

20. What are the benefits each class of customer (see above) derives from using product?

21. Which *advertising* has been most effective?

22. Whose *endorsement* might cause a person to buy our product(s)?

23. What types of *packaging* have produced the most sales?

24. What is the buyer's *hot button*?

Channels—Where do they buy?

25. Which distribution channel produces the most sales revenue?

26. Which distribution channel produces the most gross profit?

27. What has been the greatest change competitors have made in distribution channels?

28. What has been the most effective change we have made in distribution channels?

29. Why was the change (in question 28) so effective?

30. Is there a level in the distribution link which can be eliminated?

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Appendix E: Internal Data Monitoring

Item Monitored	Last Period	Current Period	Desired Pro Forma
Financial			
1. Profit Margin (Earnings/Sales)			
2. Asset Turnover (Sales/Assets)			
3. Capital Structure (Assets/Equity)			
4. Return on Equity [(1) × (2) × (3)]			
5. Accounts Receivable Turnover (Sales/Accounts Receivable)			
6. Accounts Payable Turnover (Purchases/Accounts Payable)			
7. Current Ratio (Current Assets/Current Liabilities)			
Operational*			
8.			
9.			

* Examples of operational data to be monitored might include:

• Backlog

• Downtime

• Rejects

• Calls received

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