PART 1

The Business-Planning Process

Three Steps to an Effective Business Plan

Those who fail to plan, plan to fail.
—George Hewell

This part on the business-planning process presents two chapters that provide an introduction to business plans and an overview of the business-planning process that you will use to develop your business plan.

Chapter 1: An Introduction to Business Plans answers the question, "Why do I need a business plan?" It also describes the two most popular kinds of plans found in today's business world and explains why they generally fail to meet the objectives of the developers.

Chapter 2: The Three-Step Planning Process presents an introduction to the three steps you will use to develop and manage your own business plan—identifying the issues, developing the plan, and managing the plan. Performing these three steps avoids the planning pitfalls described in Chapter 1, thereby helping you successfully achieve your planning objectives.

CHAPTER 1

An Introduction to Business Plans

plan (plan) n. [Fr., plan, plane, foundation: . . .] refers to any detailed method, formulated beforehand, for doing or making something . . .

—*Webster's New World Dictionary*[1]

Keeping this definition in mind, what do a housing developer, a professional football coach, a military commander, and a commercial airline pilot have in common? The answer is that they all begin their projects with a written plan. These construction plans, game plans, battle plans, and flight plans (and business plans as well) all have something in common—the objectives and approach to accomplishing the mission of each is determined and documented *prior* to undertaking the mission. Referring to this part's opening quote, these planners *don't* plan on failing.

BUSINESS CHARACTERIZATION BY SIZE

The U.S. Small Business Administration (SBA) reports that more than 22 million businesses filed tax returns in 1995.[2] As shown in Figure 1.1, the large majority of these businesses (approximately 17 million) were sole-proprietorships (no employees), about a third (approximately 5 million) had from 1 to 500 employees, and only 15,000 businesses had more than 500 employees. The SBA defines a small business as a company that has fewer than 500 employees.[3]

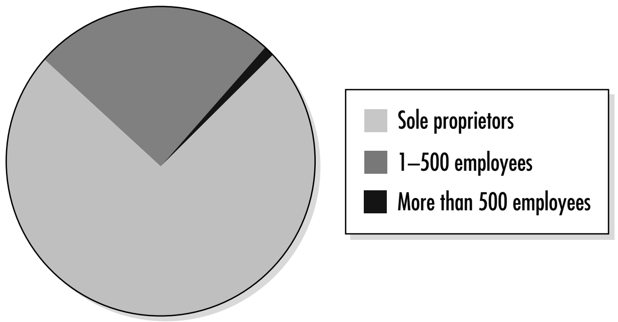

FIGURE 1.1 *U.S. business size distribution.*
(SOURCE: U.S. Small Business Administration, 1996.)

When considering the planning process, I prefer to define a small business as a company that is typically striving to achieve growth and stability. It has a small management team most often consisting of the owner and perhaps one or two other managers, is usually doing less than $1 million in annual sales, and employs 1 to 15 people. In contrast, I view a medium-sized firm as having a management team (infrastructure) in place and diversifying and gaining maturity. These companies are seeking continued growth and increased profitability, are doing between $10 million and $50 million in sales, and employ up to 500 people. Companies between $1 million and $10 million are typically in transition from being owner controlled and managed to building a management infrastructure. They can be considered small or medium-sized depending on how quickly they are making the transition to shared management.

In terms of business planning, my experience has shown that the small firm almost always relies on its president to develop and implement the business plan, whereas the medium-sized firm typically involves a management team in the development and implementation of its business plan.

KEY CONCEPT

MOST COMPANIES DON'T PLAN

Over the last 8 years, I have worked with more than 70 small to medium-sized companies (most of them having less than 500 employees), ranging from start-ups to companies earning $400 million in gross sales. I have helped them make something of their companies through the development and implementation of action-oriented business plans. In my capacity as a business consultant, it has become clear to me that most owners of small to medium-sized companies or organizations *do not* have documented business plans—and, further, see little value in them. And as for the small number of companies or organizations that do develop plans, they typically do not *implement* them.

Chances are, you are in the majority of businesses that don't plan, or that plan but don't implement their plans. Their owners and managers see the planning efforts of the housing developer, the football coach, the military commander, the airline pilot, and others as special cases that are, therefore, not applicable to their businesses. Notice that large companies are not included in my reference to nonplanners, and this should tell you something—a business doesn't *become* large or *stay* large without *planning.* I'm not suggesting that every successful company started off with a business plan, but I can say that, by far, the majority either succeeded because they had a documented business plan in their early history, or they developed one along the way and have it in place today.

(At this point, I want to note that I understand that readers most likely either own or manage a business, manage an element of a business, or are considering going into a business. In the interest of brevity, when I use the term *business owner,* understand that my remarks apply as well to business managers, managers of business elements, and would-be owners and managers.)

KEY CONCEPT

BUSINESS FAILURES ARE LINKED TO LACK OF PLANNING

The U.S. Small Business Administration reports that although almost 1 million new businesses are started each year, almost as many close their doors each year.[4] Figure 1.2 reflects the SBA's data on the failure rate of businesses over a 10-year period. As indicated, almost a quarter of all businesses fail in the first 2 years, over half after 5 years, and almost 80 percent after 10 years.

Some books on business present even more dismal numbers. Joseph R. Mancuso, one of the most popular authors of how-to books for small businesses, states in his book *How to Write a Winning Business Plan* that "over half of new businesses fail within the first two years of operation—over 90 percent fail within the first ten years. A major reason for failure is lack of planning. The best way to enhance your chances of success is to plan and follow through on your planning."[5] Corello and Hazelgren state in their book *The Complete Book of Business Plans* that "about 1 million businesses per year are started and 80% fail in 5 years."[6]

In his *Small Business Start-Up Guide,* Dr. Robert Sullivan cites planning as one of nine steps to business success. He states, "A major reason for business failure is lack of planning. Prepare a strategic plan for your business that clearly defines your mission, your present situation, your strategies, and where you want to be in the next three to five years. This plan will be your roadmap to effective decision making."[7] These failure statistics strongly support George

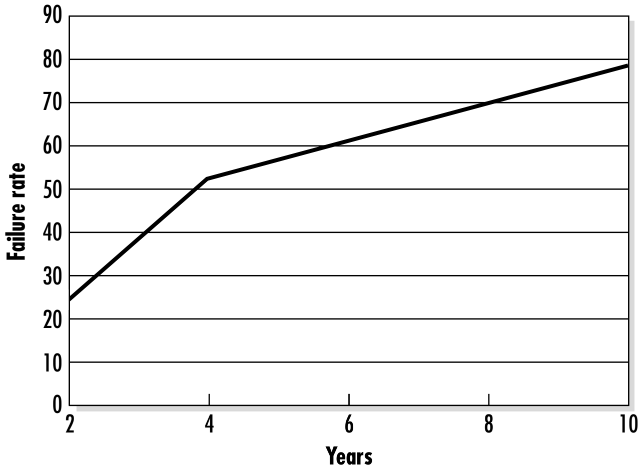

FIGURE 1.2 *Business failure rate.*
(SOURCE: U.S. Small Business Administration, 1996.)

Hewell's statement cited at the beginning of this part: "Those who fail to plan, plan to fail."

Many a maxim links success to planning:

- On any journey, we must find out where we are before we can plan the first step.—*Kathy Boevink*
- Nothing Happens Unless First a Dream—*Carl Sandburg*
- The future belongs to those who plan for it.—*Anonymous*
- The end justifies the means.—*H. Busenbaum* (c. 1650)
- If you don't know where you are going, how can you expect to get there?—*Basil S. Walsh*
- Even if you are on the right track, you'll get run over if you just sit there.—*Will Rogers*
- Goals determine what you're going to be.—*Julius Erving*
- The very essence of leadership is that you have to have a vision. You can't blow an uncertain trumpet.—*Thomas Hesburgh*
- Begin with the end in mind.—*Stephen Covey's* Habit #2 of highly effective people

Referring to the last bullet, Steven Covey says in his popular book *The 7 Habits of Highly Effective People,*" "The extent to which you begin with the end in mind often determines whether or not you are able to create a successful enterprise. Most business failures begin in the first creation, with problems such as undercapitalization, misunderstanding of the market, or *lack of a business plan.*"[8]

KEY CONCEPT

REASONS WHY COMPANIES DON'T PLAN

Even though we may agree with the value of business planning, most of us still avoid it. Several key reasons are the following:

- I don't have the time.
- I don't know where to begin.
- I don't know who can help.
- It's too expensive to hire a planning expert.
- I don't need a plan; I know what I need to do.

Another reason that I suspect is a major stumbling block is that it's not threatening to carry a business plan around in your head. But once you've put it on paper, you're committed to it—accountable both to your staff and to yourself. That makes many of us very uncomfortable, and so we opt to shy away from the documented business-planning process.

KEY CONCEPT

WHY YOU NEED A BUSINESS PLAN

Writing this book stems from my desire to get a message to business owners and managers that answers the question, "Why do you need a business plan?" My answer is that to increase the odds of developing and maintaining a successful business, you must:

1. Understand the internal issues in the way of your success.
2. Define and document the necessary strategies and supporting tactics (the business plan) to address these issues, grow, and be more successful.
3. Implement a process in the company to effectively manage the plan to success.

You need a business plan because it is a critically important element of running a business. Without it, you increase the risk of becoming a business-failure statistic.

KEY CONCEPT

TYPES OF BUSINESS PLANS

When you think *business plan,* what comes to your mind? A number of different types of plans are found in today's business world. Two very popular plans, with which you likely have some familiarity, are what I call the *classic business plan* and the *strategic plan.* The *classic business plan* is the one that you will most often be referred to at your local bookstore or library when you ask for a book on business planning. The *strategic plan* is the one that always looks and reads like a doctoral thesis and collects dust on bookshelves. Let's examine these two types of plans in more detail.

The Classic Business Plan

The classic business plan typically presents a description of the company; an analysis of the industry and the particular markets it's in; a description of the competition; a marketing plan; and a description of the operations, management, and organization of the company, as well as its financials, including an income statement, a balance sheet, and a cash-flow analysis. This plan describes the history of the company, its current position, and projections for its future. Its main purpose is to raise capital from outside sources or to persuade senior management to invest in a particular organization or concept. It's not really a plan but more a statement as to the worthiness of the business venture—a selling document. It's somewhat short on strategy and doesn't address tactics at all. These types of plans are necessary if you are seeking to raise capital, and I have already cited several books on classic business plans in this chapter.

In his book on business planning, *How to Create a Successful Business Plan,* David E. Gumpert defines a business plan as "a document that convincingly demonstrates that your business can sell enough of its product or service to make a satisfactory profit and be attractive to potential backers."[9] I contend that this classical business plan is not really a plan at all, but a statement as to the worthiness of a business venture in an effort to raise capital. As Gumpert goes on to say, it's a selling document.

The Strategic Plan

On the other hand, the strategic plan is long on strategy but, like the classic business plan, it doesn't address the critical tactics for making the plan a reality. Typically prepared once a year, the strategic plan contains a description of the company and its market, and strategies for attacking this market, as well as a set of long-range goals, usually covering a five-year period. The problem here is that once they are completed, these strategic plans, often bound in attractive three-ring binders, are typically placed on the shelf and are never referred to again until about two weeks prior to the next year's strategic planning session. The reason they sit on the shelf gathering dust is that they focus on long-range activities and don't relate to the day-to-day tactical activities associated with acquiring business and growing a company.

KEY CONCEPT

STRATEGY AND TACTICS

At this point it's important to distinguish *strategy* from *tactics*. Webster defines strategy and tactics as follows:

> strategy n. [Fr., stratégie . . .] a stratagem or artful means to some end . . .
>
> tactics n. [Gr., taktika . . .] any methods used to gain an end . . .[10]

In terms of business planning, I view *strategy* as a road map and *tactics* as the vehicle to implement the strategy. I also view strategy as taking place in the long-term, whereas tactics is more a short-term undertaking. With these definitions in mind, strategic plans are just the road maps without the tactics.

OTHER TYPES OF PLANS USED IN BUSINESS

Other types of business plans are used in the corporate domain, including manufacturing plans, financial plans, staffing plans, facilities plans, communications plans, and marketing plans. These types of plans are typically short-termed and necessarily are focused on a particular segment of the company's operation. I don't diminish the importance of these types of plans, but they do not address the broad issues of successfully growing the company and will not be further addressed here.

KEY CONCEPT

WHY BUSINESS PLANS FAIL

As discussed earlier, the majority of those companies that develop plans fail to implement them. In taking on the business-planning process it is important to understand the four most common reasons for this failure:

1. *The plan doesn't account for roadblocks.* Every company, including yours, has its set of issues that are significant roadblocks to successfully implementing a business plan. Without a doubt, these issues impede your business' growth and success. These roadblocks or issues generally appear in nine major arenas:
   - Ineffective *marketing and sales* to sustain and grow the company
   - *Personnel and compensation* problems, affecting the hiring and retaining of employees
   - Ineffective *communications* up, down, and across the line, resulting in inefficiency and a stressful work environment
   - Lack of sufficient *systems and processes* to support effective operations of the company
   - Problems in the *management and operations* of the company, affecting the future health of the business and its employees
   - *Cultural* problems, affecting every element of the company
   - Poor *planning* or ineffective *plan implementation*
   - Insufficient *resources,* including staff, space, equipment, and other facilities
   - Problems dealing with the company's *finances and administration*

   These issues, which will be discussed more thoroughly in Part 2, demand serious attention and must be addressed in your business plan in order to remove the barriers to its successful implementation. Defining and dealing with these issues will allow you to get on with growing your company, making it more profitable, and creating a workplace that is more enjoyable for you and your employees.

2. *The plan is too limited in scope.* As discussed earlier, the *classical business plan* is focused on raising money and does not adequately address strategies and tactics for growing a company. On the other hand, *strategic plans* typically focus on marketing and sales strategies to the exclusion of other elements of the company. These plans lack the necessary tactics for successful implementation. Part 3 presents a format to develop your business plan. This format addresses all components of the company (not just marketing and sales) and encompasses both the strategies and the supporting tactics necessary to make your plan a living document—a tool for managing the growth and success of your company.
3. *There is no management process in place to support plan implementation.* Once the plan is developed, you need to implement a process for managing the plan to success. You cannot put the plan on the shelf and expect success at the end of the year—the plan needs regular attention throughout the year. You must hold yourself accountable to take the steps necessary to implement your plan. In larger companies, the senior staff members will take on the responsibility to implement various portions of the plan. It's up to you to hold your managers accountable for achieving those objectives they take on. In addition, regular reviews of the progress toward attaining the plan's objectives must take place. Part 4 presents the process for managing your plan to success.
4. *The plan action items lack priority.* The necessary tactical actions to be taken to implement the plan usually take a back seat to the pressing demands of day-to-day business. Most senior managers view planning actions (e.g., getting that new accounting system in place or developing that new marketing brochure) as just one more set of things to do. They believe that these action items can be put off until next week, next month, or when things "lighten up." A discussion of

committing to the plan's implementation is presented in Part 4.

PLAN OR DIE

Many of the fires that senior management continuously fights stem from the issues or roadblocks (as introduced in item 1 in the preceding section) that abound in most companies. If these issues were identified and strategies and tactics were developed to address and eventually eliminate them, senior managers would have more time to devote to growing their company and making it more successful. In *Plan or Die!,* Nolan, Goodstein, and Pfeiffer point out that "strategic planning and strategic management (the day-to-day implementation of the strategic plan) are the two most important, never-ending jobs of management, especially top management."[11]

STEPHEN COVEY'S TIME MANAGEMENT MATRIX

In *The 7 Habits of Highly Effective People,* Stephen Covey developed the time management matrix presented in Figure 1.3. This matrix shows that managers spend their time in four different quadrants—performing activities that are (1) urgent and important, (2) urgent but not important, (3) not urgent but important, and (4) not urgent and not important.[12]

Covey points out that *urgent* means something requiring immediate attention—such as a ring-

Urgent Important	Not urgent Important
Urgent Not important	Not urgent Not important

FIGURE 1.3 *Covey's time management matrix.*
(Source: The 7 Habits of Highly Effective People, by Stephen R. Covey; 1990, Simon & Schuster.)

ing telephone. On the other hand, something *important* deals with results, such as your values, your mission, and your goals—your *plan*. The *urgent and important* quadrant (top left) reflects crisis management. Covey says that we all have some crises in our lives, but this quadrant consumes many people who are problem solvers and deadline driven. Many people prefer spending time in this quadrant because they like doing *important* (also what they think are urgent) things. According to Covey, "That's how people who manage their lives by crisis live."

Then there are those who spend large parts of their time in the *urgent and not important* quadrant (lower left), thinking they're actually in the urgent and important quadrant. They react to urgent situations thinking that they are important, but Covey says that "the urgency of these matters is often based on the priorities and expectations of others."[13]

Covey points out that the *not urgent and important* quadrant (upper right) "is the heart of personal management." He goes on to say that "effective people stay out of the Urgent and Not Important quadrant (lower left) and the Not Urgent and Not Important quadrant (lower right), urgent or not, they aren't important." This last point is critical. By putting effort into the planning arena (the not urgent and important quadrant) through identifying issues and developing strategies and tactics to eliminate them, you will, as Covey says, be able to "shrink the Urgent and Important quadrant down to size by spending more time in the Not Urgent and Important quadrant." Implementing your business plan is where you perform *important but not urgent* activities.

OBJECTIVES OF THIS BOOK

Because business planning is a critical element in ensuring the success of any business, and because most business owners and managers don't do it, I have written this book with the following three objectives in mind:

1. To provide you with an understanding of effective business-planning and plan-implementation techniques

2. To provide a straightforward and comprehensive approach to documenting a business plan for your enterprise
3. To prepare you to conduct a planning session in your own company or organization that will enroll others in the plan

With your company's plan in hand and the knowledge of how to successfully implement it, you'll be able to move forward with an effective tool for surviving and growing in today's challenging business environment.

END POINT

Most companies don't plan, and of those that do, most don't implement their plans. The two most popular business plans are the *classic business plan* and the *strategic business plan,* and both have serious drawbacks with regard to supporting the growth and success of your company.

Business plans are not successfully implemented for four key reasons:

1. The roadblocks to plan implementation aren't identified and acted upon.
2. The plan is too limited in scope (focused on raising capital or limited to developing marketing strategies).
3. The company has no plan-management process in place.
4. The plan's action items lack priority.

With this in mind, let's move to Chapter 2, which presents a business planning process that counters these four reasons for plan failures and forms the basis for the remainder of the book.