

BUSINESS PLANNING

T

his chapter covers the task of business planning which is applicable to all businesses whether a sole trader or a multinational conglomerate. The production of a business plan is needed to describe the business, its objectives, its strategies, the market it is in and its financial forecasts. It is often used as a tool for measuring the performance of the organization against that intended over a short- or medium-term period, typically three to five years. For many new businesses the business plan may be used as a tool to promote an interest in the business and to secure external funding and as such needs to be undertaken as a serious task. In addition to this, a business plan has several other purposes as it:

- Prompts management to logically examine the business in a structured way and consider what it currently does and what it wishes to do in the future.

2 THE ESSENTIAL MANAGEMENT TOOLBOX

- Encourages management to set future business objectives and then monitor progress against the plan.
- Identifies the resources and time needed to implement the business plan.
- Can be used to communicate the key features of the business plan to employees and provide them with an awareness of the business's direction.
- Provides links to the detailed, short-term functional strategies.

This chapter also shows the basic stages in producing a business plan and the planning cycle which also looks at past performance and what needs to be addressed as new targets and objectives. Indeed the focus on the business plan is likely to be on three areas: setting realistic goals for the business to aim for, demonstrating how its objectives will be met and finally identifying what resources in terms of people, plant and investment will be required by the organization to achieve the plan.

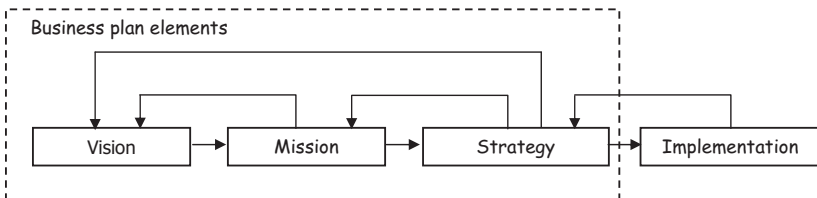
Although there is no set formula for the contents of a business plan, a typical layout is provided in this chapter as a good starting model for those embarking on its production. For those who do so with an external reader in mind – bank, shareholders, etc. – then adopting a common format is likely to convince the lender that the organization at least knows how to portray its business and ambitions in a professional and recognizable way. On completion of the task a checklist on the business plan feasibility is also included, this covers the key questions on the management, marketing and financial aspects of the plan which need to be addressed either directly or indirectly in the plan.

For new businesses the business plan should also describe how the company will operate from its launch until it has established itself in the market. In practice there should be a detailed narrative on the first six months as this is when costs in establishing

the business are being incurred – in developing a market, recruiting staff, negotiating with suppliers, etc. – contrasted with no or low income, particularly if part of a supply chain, when customers’ terms of payment are unlikely to be favourable in terms of timescale and hence the subject of cash flow needs to be described. Having invested time, effort and some cost in producing the business plan with its objectives clearly articulated, this should not be limited to senior management or shareholders but should be used in the business and updated as new environmental opportunities and threats arise. This tool will help to keep track of current performance and development plans. The final point to consider is that business planning is not a on/off isolated event; it needs to be used, reviewed and periodically repeated to ensure that the business is achieving its desired level of performance.

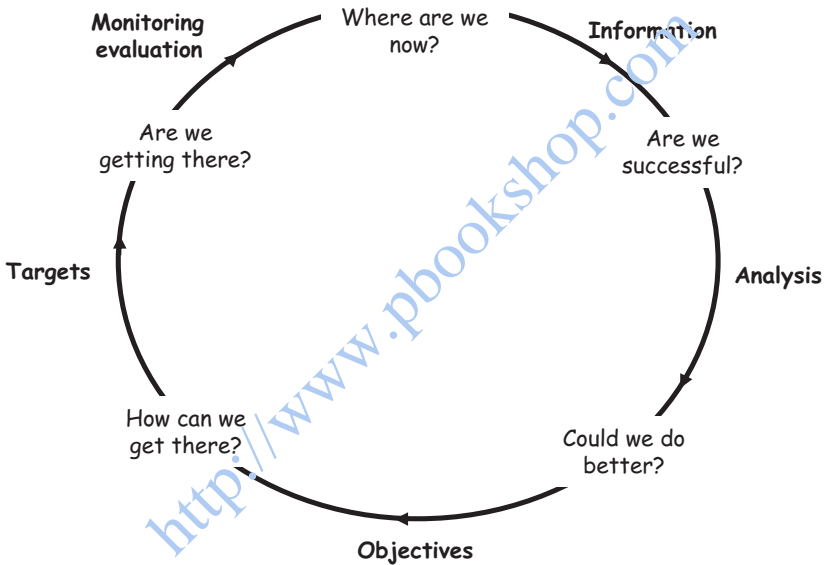
TRADITIONAL APPROACH TO STRATEGIC IMPLEMENTATION AND BUSINESS PLANNING

While this model presents the ideal approach, in practical terms this is a much more inter-related process; however, the benefit of the model is to illustrate that determining the Vision and Mission are important steps in strategy formulation and in setting the business plan.



THE PLANNING CYCLE

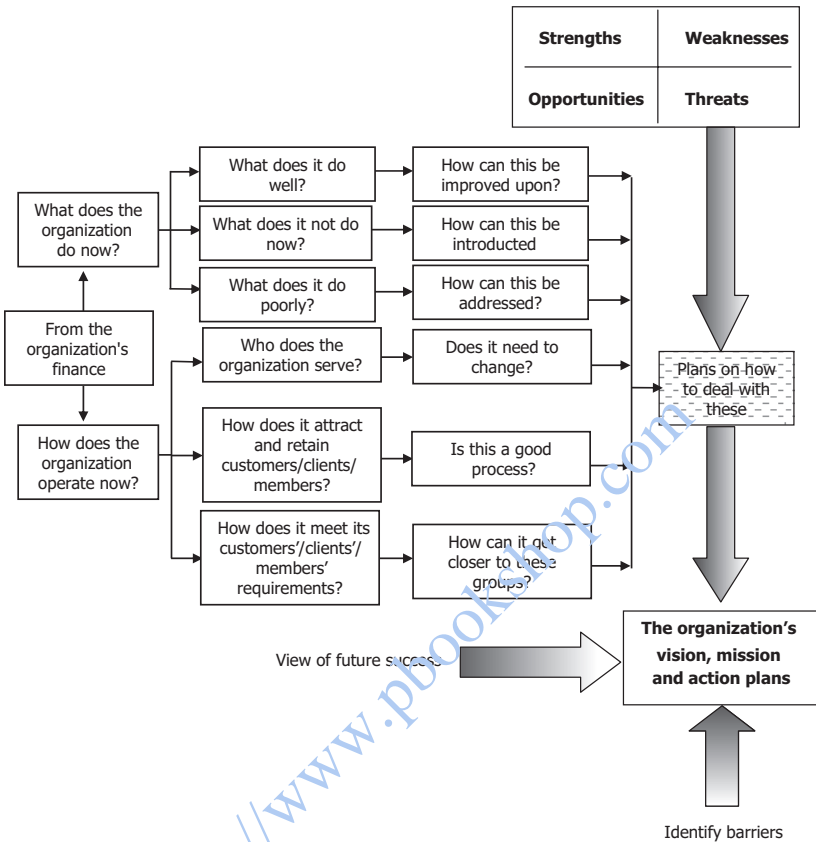
This simple model has links into research and data gathering, analysis and options studies, strategic management in the form of setting objectives and finally in performance management often related to people performance objectives. While this is shown here in a business planning context it also has applications at an individual level as part of career appraisal and personal development and in training needs identification.



UNDERSTANDING THE PRODUCT/SERVICE

This is a typical approach which can be used to understand a product or service business with a client organization to demonstrate and promote the planning process.

The questions shown below, together with establishing a view of the future for the organization and identifying barriers or constraints, can be linked to a workshop format to maximize the amount of involvement, creative thinking and agreement to a way forward.



TYPICAL BUSINESS PLAN CONTENTS

While there is no set format for a business plan the majority of these follow a typical presentation format; this is mostly because companies looking for investors will want to show that the business is being professionally managed and investors will want to understand the business activities, its future aspirations and the potential that the business wishes to address. Thus a typical layout of a what may be regarded as an extended business plan is shown below:

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Executive summary

Business concept	Company market potential	Management team
Distinct competencies	Required funding and its use	Exit strategy

Company description

Mission statement	Summary of activity to date	Current stage of development
Competencies	Product/service description	Benefits to customer
Objectives	Keys to success	Location and facilities
Differences from current offerings		

Industry analysis

Entry barriers	Supply and distribution	Technological factors
Economic influences	Regulatory issues	

Market analysis

Overall market	Market size and growth	Market trends
Market segments	Targeted segments	Customer characteristics
Customer needs	Purchasing decision process	Product positioning

Competition

Competitor profiles	Competitor products	Competitor market share
Competitor services	Competitive evaluation of product	Competitive advantage
Competitive weaknesses	Future competitors	

Marketing and sales

Products offered	Pricing	Distribution
Promotion	Advertising and publicity	Trade shows
Partnerships	Discounts and incentives	Sales force
Sales forecasts		

Operations

Product development	Development team	Development costs
Development risks	Manufacturing (if applicable)	Production processes
Production equipment	Quality assurance	Administration
Key suppliers	Product/service delivery	Human resource plan
Facilities	Customer service and support	

Management and organization

Management team	Open positions	Board of directors
Key personnel	Organizational chart	

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Capitalization and structure

Legal structure of company
Exit strategy

Present equity positions

Deal structure

Development and milestones

Financing commitments

Launch

Expansion

Product development milestones

Signing of significant contracts

Details break-even performance

Prototype testing

Additional funding

Other major milestones

Risks and contingencies

Increased competition

Suppliers' failure

Loss of a key employee

Change in business conditions

Regulatory changes

Financial projections

Average inventory

Income statement

Key ratio projections

Sales forecasts

Cash flow statement

Financial resources

Balance sheet

Break even analysis

Financial strategy

Summary and conclusions

Appendices

Management résumés

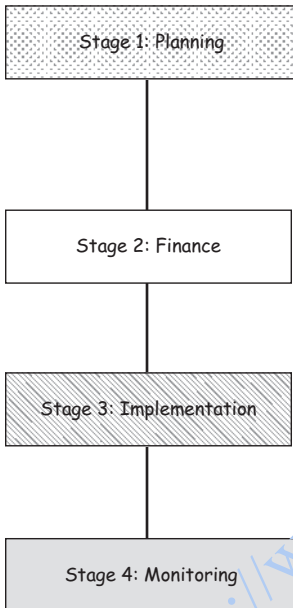
Plus any other supporting documents

Competitive analysis

Sales projections

PRODUCING THE BUSINESS PLAN

Producing a business plan must cover four basic stages of business development:



The management's best estimate of future operations is set out in a logical and organized way. This should crystallize ideas and identify any problems and areas for further analysis.

To determine when money is required and whether it needs to take the form of loan capital or other forms of funding.

This provides the management with guidelines for running the business efficiently.

To allow the management to assess and control the company's progress by comparison with financial projections in the plan.

CHECK ON BUSINESS PLAN FEASIBILITY

Having completed the production of a business plan, its success in business depends on three crucial elements:

- The management of the business
- Its approach to marketing
- The money that the business needs and will generate

These three elements are detailed below and testing them against these questions will provide the organization with a level of confidence before it faces any external investor, bank or stakeholder.

Management

- Does the management team have the motivation and skills to deliver the products/services you envisage?
- Does the management team have the skills to look after the administration side of the business, including all of the money matters?
- Has the organization the ability to sell the services to the potential clients identified?
- Are you prepared to modify the business plan in the light of what people want?
- Is the company confident that it is able to manage skills and time to full effect?
- Does it need any new people to make this plan work?
- Does it need 'different' people to make the plan work?
- Can the plan work and the business carry on if current key people leave the company for another job, retire, win lottery, etc.?

Marketing

- What is so special about the services that the company intends to provide?
- How do you know that anyone will want to buy them?
- How often will they buy from you?
- How much will you charge for the services and are people/companies prepared to pay those prices?
- Are you sure that you can provide these services at these prices, make a profit and manage the cash flow?
- Why should anyone buy from the company rather than others in the market?

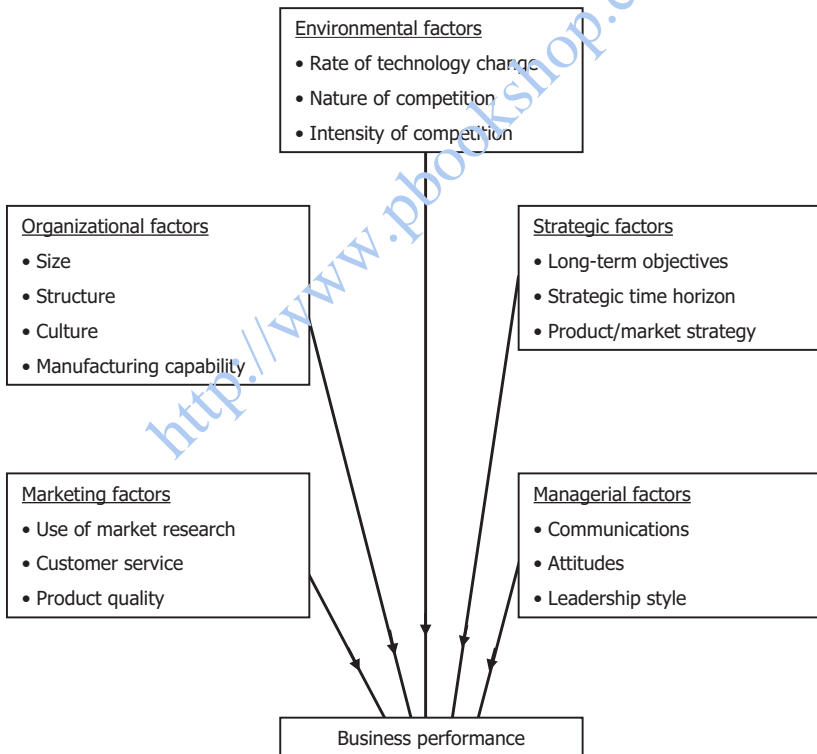
- Is this the right time to start providing the services that you have in mind?
- Will you be able to develop them as the market develops?
- Have you considered how you will advertise or promote the company's services and how much will this cost? (See also Money)
- Where will you advertise or promote?
- Do you know who the competitors are and what services/products they are selling?
- Have you spoken to any potential customers about the company's services that you provide or intend to provide?

Money

- Will the business make a profit?
- Will you be able to pay each bill as it arrives?
- What financial resources will you need to be successful?
- Are you confident that you can pay back any loans over a reasonable period, and pay the interest?
- Have you researched, listed and costed the expenditure items that you will incur?
- When will income start to flow?
- Which part of the market provides the revenue? Is this secure or high risk?
- What are customers prepared to pay for the company's services?
- What revenue can we expect from new markets?
- What revenue can we get from repeat business?
- What is the cost of acquiring new business, in bidding, making contacts, marketing, presentations, etc.?

FACTORS INFLUENCING COMPETITIVE SUCCESS

Business performance is determined not just by income from the company's services and products but also by how it manages its relationship with a number of factors. The model below shows these factors, some of which are outside of the control of the organization. For those tasked or advising on the production of an organization's business plan, consideration of the model will help to ensure that the major factors have been addressed and planned.



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