

THE BUSINESS PLANNING PROCESS



Session Outline

- Introduction To The Planning Process
- The Planning Pyramid
- Vision & Mission Statements
- Setting Goals
- Crafting Strategies
- Your Business Model
- Your People & Implementation
- Writing Your Business Plan
- Your Marketing Plan
- Your Production Plan
- Your Financial Plan
- Your Finished Business Plan

In this module, the Business Planning Process is treated as a form of planning discipline - a discipline that takes the Planner through important steps of strategic consideration. The end result is a Strategic Planning process that culminates in the creation of a finished document, known as **The Business Plan**.

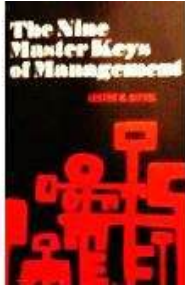
The Importance of **PLANNING**



As such then, it is a combination of strategic, critical thinking on very specific topics, in relatively specific order of consideration.

This educational model will use the steps of creating a Business Plan to both convey the content of proper business/strategic planning, with the creation of a tangible outcome for the participant of the seminar and that it is the creation of your own Business Plan for your enterprise.

“Making Dreams Come True”



***“Good plans shape good decisions.
That’s why planning helps to make
elusive dreams come true.”***

- Lester R. Bittel, *The Nine Master Keys of Management*

A key theme in the makeup of this Business Planning Module, is the quote from the book, *Nine Master Keys of Management*,
“Good plans shape good decisions. That’s why planning helps to make elusive dreams come true.”

- Lester R. Bittel *The Nine Master Keys of Management*

Strategic Planning Pyramid



This module introduces The Planning Pyramid – a visual representation of the importance of ordering in one’s mind how best to create the very specific elements involved in one’s business plan – i.e. the mechanics of how the business idea is to operate: one’s essential product; its target market, how it is to be produced, brought to market and sold ; what human resources will be required; the environmental and social considerations; the risks involved and its important financial targets.

The strategic planning pyramid then is ordered in the following manner:

Mission & Vision Statements

Specific Goals

Strategies to Achieve Desired Goals

Tactics & Action Plans Designed to Achieve the Goals

Vision and Mission



Properly applied, the many action plans that occupy most everyone's day to day time in any enterprise will tie directly into a defined strategy which ties into achieving a specific Goal which is consistent with the Mission and Vision of the enterprise.

All activity then is guided by a unified Business Planning Process. Synergy is thus achieved in such a process where the end result is truly greater than the sum of its parts.

For example, setting up an on-site, local fruit processing facility (an Action Plan); is commensurate to having a value-added, branded Strategy; which is commensurate to the Goal of achieving a 50% profit margin on products sold; which is commensurate to the Mission/Vision statement of " Being a leader in the growing and processing local fruit products".

In this example, the point to emphasize is the connection from very specific activity (processing farm grown fruits on site) to the levels of the planning pyramid, so it is always consistent. The value of this connection is the increased probability that any given, day to day activity will better lead to the organization, achieving what it has defined as its purpose of existence and specific goals it wants to achieve.

An Effective Vision Statement

- Clear & Focused
- Flexible
- Compelling
- Easy to Communicate

What business are you in? Such a fundamental question - yet so often overlooked or misunderstood in a venture. One often becomes inspired to take on a business venture because they see an Opportunity in the marketplace – a need to be filled that can lead to a successful business venture..

But how one truly sees the vision of the future and what is being undertaken can make the difference between a flash in the pan good idea and something that truly brings a needed good or service to many people.

To use McDonald's as an example, Ray Kroc is considered the visionary of that long running successful business, though he did not start the business. The McDonald's brothers of San Bernardino, California created a quick service hamburger stand that was known for its speed, consistency and cleanliness and the line ups formed. When Ray Kroc, a Dixie Cup salesman from Chicago supplying the food stand with cups, travelled to San Bernadino to see the business that was buying so many of his cups, he immediately got the vision of what the McDonald's brothers had created. Ray Kroc did not just see a burger stand, what he saw was thousands of McDonald Hamburger operations, franchised throughout the country, based on convenience, speed, cleanliness, consistency at a good price. And his vision, the fast food industry in

North America was born.

Ray Kroc's answer then to the question of "What business's are we in?" was not that of selling Hamburgers, but that of supplying convenience and consistency in an affordable food product, throughout the land.

Likewise, Steve Jobs' vision of what the Apple company was/is, transcends that of being a technology company. Key descriptive such as creating a trust relationship with its users, become an important way to look at "what business are we in?"

What business do you think you are in? How would you articulate your Vision of your business idea, such that it transcends the mere description of your immediate product or service?

Your Mission Statement

- What we do TODAY
- Who we are
- What we do
- WHY we are here

Once you have set on a compelling Vision for the future of your enterprise, Strategic Planning practices have found it very valuable at this point to articulate a Mission Statement.

A good Mission Statement answers the question, "Why Are We in Business?" and can be answered easily with conviction at the start of each business day, by those involved in the enterprise.

Mission Statements

"To help people live healthy lives."

- Beckton, Dickinson, Bio Medical Company



"To nourish and delight, everyone we serve."

- Darden Restaurant Group



Studying the examples from many highly successful companies is a worthwhile exercise in fashioning the Mission Statement for your business. Here are a few examples:

"To help people live healthy lives."

- Beckton, Dickinson, Bio Medical Company

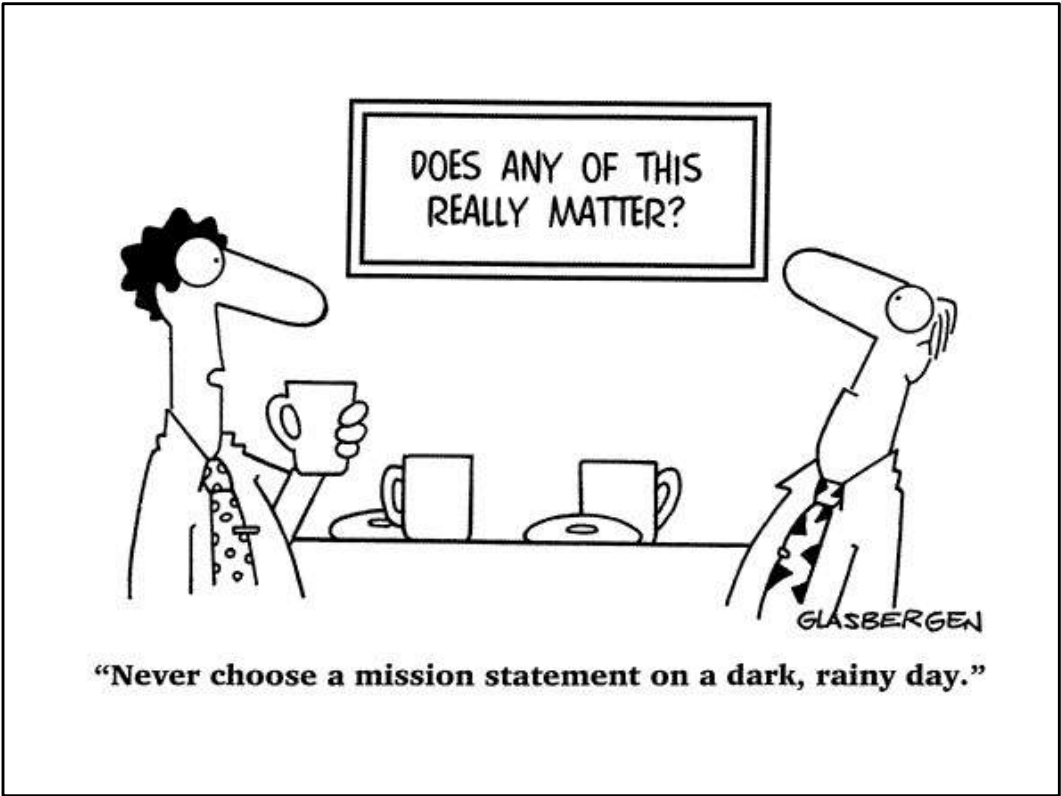
"To nourish and delight, everyone we serve."

- Darden Restaurant Group

BIG AL'S RADIATOR SHOP

**“We're A Good Place
To Take a Leak !”**





"Never choose a mission statement on a dark, rainy day."

SETTING GOALS

- **Measurable**
- **Time Lines**
- **Accountability**
- **Stretch Objectives (BHAGs)**



“YOU MANAGE WHAT YOU MEASURE”

Setting goals for your enterprise is an important step in the process. Clear goals allow the members of the organization to more easily understand their day to day work activities and be able to think on their feet, working harder when necessary and possibly seeing better ways in which the group might achieve its targets.

Quantifiable goals allows for measurements of performance, reward productive results and allows the team members to see how the business is doing.

Tracking the right performance numbers and communicating them to the team members in a timely and accurate manner is essential. Just like a basketball or football team can easily see how they are doing in a game, by simply looking up at the scoreboard, likewise, clear goals and timely feedback on performance allows team members to adjust their performance when necessary and work more closely towards its targets. “YOU MANAGE WHAT YOU MEASURE” is a very meaningful business saying. Choosing the right metrics of performance then and tracking them accurately and giving timely feedback to team members is essential, in hitting goals.

BHAGs



There is also value in setting some very aggressive, *Big, Hairy, Audacious Goals* – or BHAGs for short. Such goals by their nature will require the whole organization to stretch in its effort, in order to accomplish them.

Done properly, such goals can be compelling and highly motivating for the core group of individuals in the organization. And its amazing sometimes what obstacles can be overcome and things accomplished, simply because it has been stated as the goal.

On such famous BHAG was stated by President J.F Kennedy in 1961.

"I believe that this nation should commit itself to achieving the goal, before this decade is out, of landing a man on the moon and returning him safely to Earth."

Creating a compelling goal for your organization can have a galvanizing effect and place your people on a sense of Mission, rather thinking they have "job".

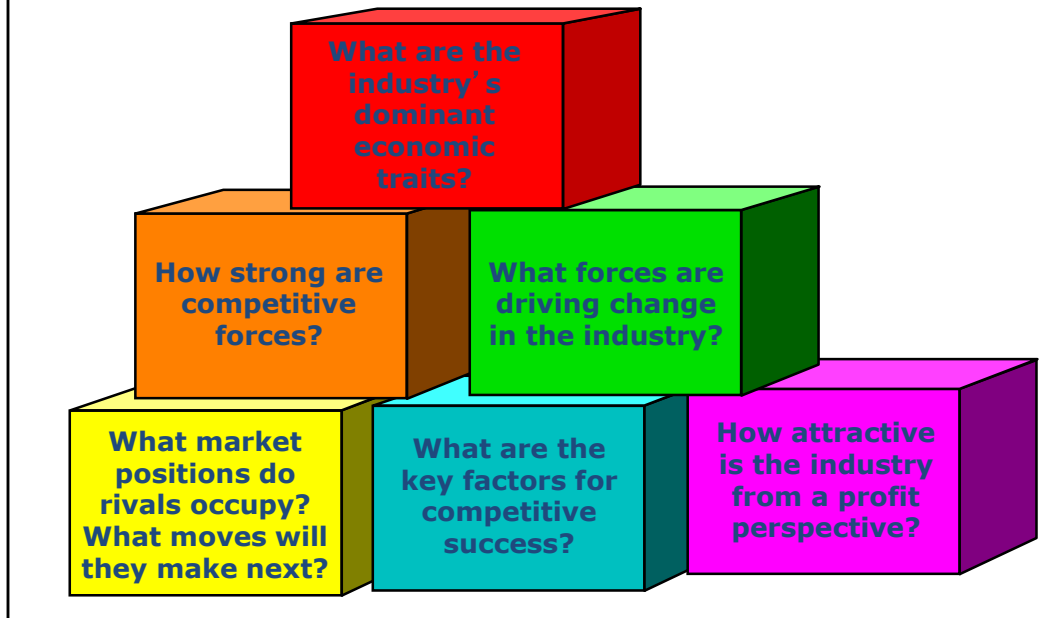
Crafting Strategy

ASSESS THE ENVIRONMENT

- External Environment
- Internal Environment

Assessing one's environment is a foundation step in setting business strategy. There is both an external and an internal context in making these important assessments which will influence a choice of strategy. Understanding your industry's dominant economic features and keys to success in that industry should be done.

Key Questions Regarding the External Environment



Six Key questions to ask are:

What are the industry's dominant economic traits?

How strong are the competitive forces?

What forces are driving industry change?

What market position do rivals occupy and who is on the move?

What are the key factors for competitive success?

How attractive is the industry from a profit perspective?

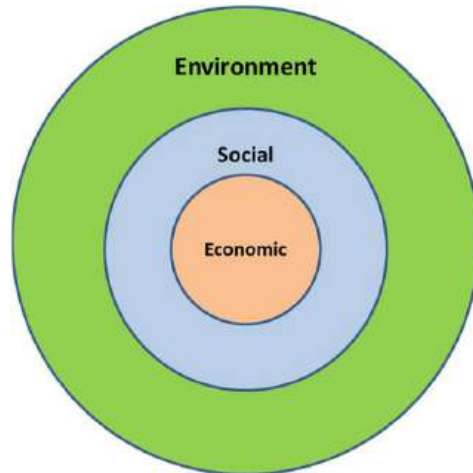
What is Effecting CHANGE in Your Industry?

- Internet & Technological Change
- Globalization
- Consumer Shifts in Preferences
- Product Innovation
- Marketing Innovation (e.g. On-line)
- Entry/Exit of Major Firms
- Changes in Cost Efficiency
- Regulatory Changes

What factors are effecting change in your industry? Things such as technology, globalization, consumer shifts to buying local, product innovations, regulatory changes, are examples of external factors to be considered when assessing strategy.

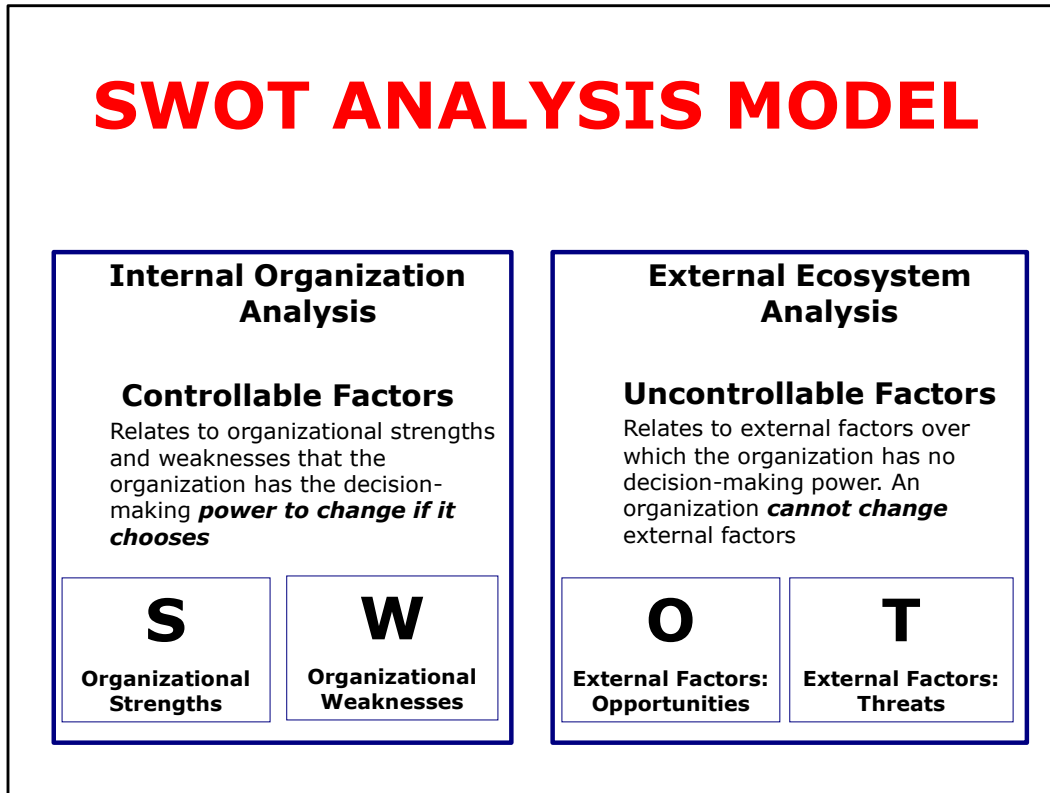
Crafting Strategy

THE TRIPLE BOTTOM LINE



Forward thinking enterprises these days are taking what is known as a **“Triple Bottom Line”** approach when setting their business strategy. This approach incorporates the notion of long-term sustainability into decision making using the three dimensions of Environmental, Social and Financial contexts.

SWOT ANALYSIS MODEL



A classic helpful analysis in assessing both Internal and External environments for the organization is a **SWOT Analysis**: Strengths, Weaknesses, Opportunities, Threats.

Such internal and external assessments will begin to point towards a winning strategy for your business idea.

The goal of which is to be able to create a **SUSTAINABLE COMPETITIVE ADVANTAGE**.

What Is Your Business Model?



Your “Business Model” is a quantitative way of describing how your business works. That is to say – how does it make a profit? Further described then as how your business generates its revenues, what all of the associated costs with generating those revenues are, and ultimately, what is left as profit.

In the planning of your business, spending time on clearly understanding your revenue streams and potential revenue streams is a highly recommended exercise. You may think you are in one business, for example, growing cherries and selling them wholesale when you realize how much more return you can achieve when your cherries go into making your own Cherry Ice Cream product.

One such infamous example is that of the legendary rock group, the Grateful Dead. Though they had a few singles which made it to the top 10, they consistently had the highest earnings per band member for many years. They built their business model on live concert touring – a revenue stream which the band keeps a maximum amount of its profits made – versus selling record albums, where the record company, agents and distributors take a large share of money made.

Implementation



The MAGIC !

Clearly, understanding your Business Model and choosing the business strategies that will maximize your profits over time, is an important step in the business planning process.

TEAM BUILDING and LEADERSHIP

Get the Right People on your Bus!



Building the right team to achieve your compelling goals and well crafted strategy is essential. The most successful long-term companies excel at implementing strategy through their people. Attracting great people and keeping them over time is the hallmark of the most successful organizations.

Part of this process to identify the key roles in your organization is to understand your own talents and weaknesses and getting the right people to augment those roles.

Organization typically need talented individuals in operations/production, selling/marketing; technology/internet; legal and accounting areas; etc. These are not always employees, especially in the early stages of growing a business but temporarily roles can be filled by advisors and consultants as needed. Of course, the visionary and founder of the enterprise is expected and does, wear many hats in the early going, but it is important to recognize one's limitations and bring in the right people to get the job done over time.

One metaphor that has been used is that of the organization as a Bus. As the bus driver (business founder) it is your job to first get the right people on the bus, then have them sitting in the right seats, before heading off to your destinations.

Your LEADERSHIP skills then become critical in keeping your bus heading in the right direction and your people on the bus, motivated and contributing. Setting strategy (direction) can be kept quite simple as well, and still have an amazingly effective results. The effective execution of the chosen strategy is what counts.

Stay in *ACTION* Toward Your *INTENTIONS*

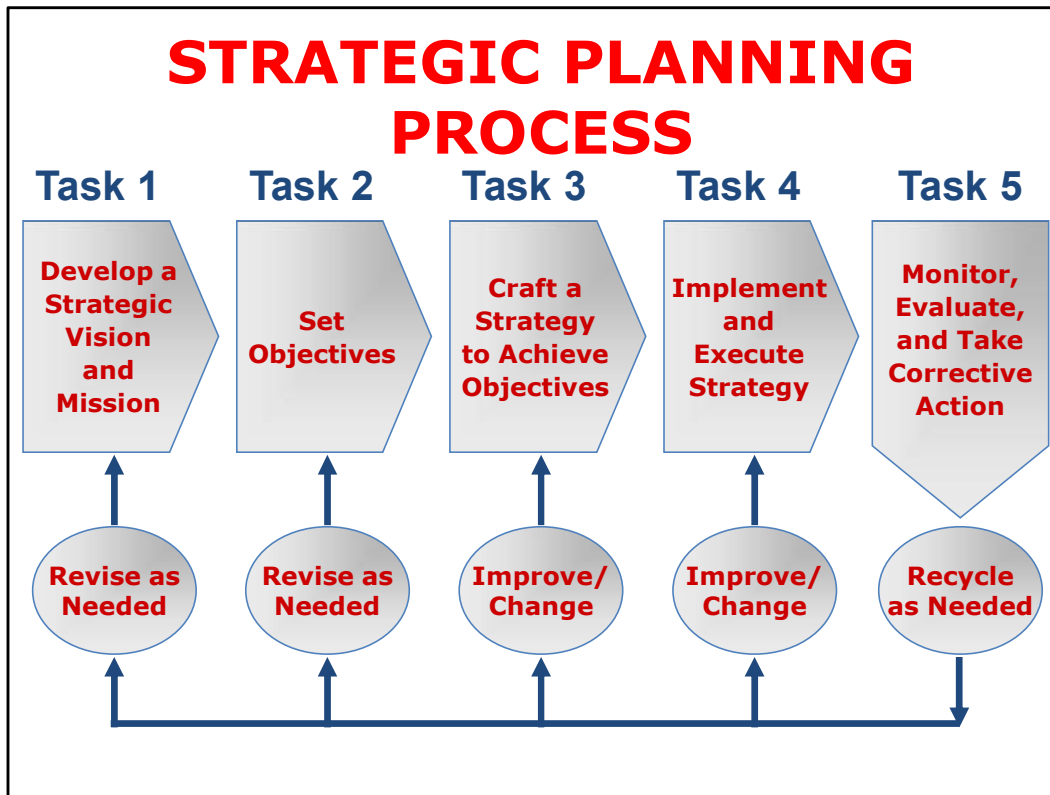


Only One Strategy For 30 Years
"Be The Lowest Cost Steel Provider"

Nucor Steel of the U.S. is often cited for its simple approach to Strategy yet incredibly effective ability to execute strategy. Their strategy is simple – "to be the lowest cost steel provider".

Their results have been nothing less than astounding when you understand that they set this simple strategy in motion in the early 1980s when all steel production in the world was moving to the cheap labour markets of Asia.

Yet they persevered through constant innovation and daily devotion to the masterful execution of their simple strategy – *to be the leader in lost cost steel production.*



Finally, it is important to understand that the execution of Business Planning Strategy is a constant form of discipline in the organization and not something limited to the beginning stages of a new organization or even a yearly exercise.

The ability for an organization to constantly measure performance, re-evaluate strategy and make appropriate adjustments in a timely manner is the hallmark of highly successful organizations. Properly implemented, the business planning cycle is something that takes place either formally or informally in your organization, every quarter.

THE BUSINESS PLAN



YOUR ROAD MAP

***COMMUNICATES TO
INVESTORS***



Your Business Plan becomes your blueprint for success as well as an important document to communicate to other stakeholders (employees, investors, bankers, landlords, suppliers, etc.) what your business is all about and that it has been thought through in a disciplined and thoughtful manner.

Going through the discipline of creating your business plan ensures you have given considerable thought to defining your product or service, defined your customer, set clear goals, thought through your pricing strategy, assessed the marketplace and your competition, created a marketing plan, assessed your risks and created detailed financial plans of how the business is to operate.

TABLE OF CONTENTS

- Introduction
- Executive Summary
- Personnel & Advisors
- Strategic Planning
 - Mission/ Vision
 - Goals
 - Industry Analysis
 - Human Resources Plan
 - Production Plan
 - Marketing Plan
 - Competitive Analysis
 - Implementation
 - Risk Assessment
- The Financial Plan

A well written Plan considers the following key headings as its table of contents:

| | |
|-----|-----------------------------|
| 1.0 | Introduction & Background |
| 2.0 | An Executive Summary |
| 3.0 | Personnel & Advisors |
| 4.0 | Strategic Planning Section |
| 4.1 | Mission/Vision Statements |
| 4.2 | Goals |
| 4.3 | Industry Analysis |
| 4.4 | The Human Resources Plan |
| 4.5 | The Production Plan |
| 4.6 | The Marketing Plan |
| 4.7 | Competitive Analysis |
| 4.8 | Implementation Schedule |
| 4.9 | Risk Assessment |
| 5.0 | The Financial Plan |
| 5.1 | Capital Requirements |
| 5.2 | Balance Sheet |
| 5.3 | Profit and Loss Projections |
| 5.4 | Cash Flow Projections |

6.0 Supporting Documents

résumés, your role in the business, credit and a personal net worth statement

credit reports, letters of reference (personal and financial)

copies of any contracts, leases, or patents.

YOUR HUMAN RESOURCES PLAN

- Name the Key people operating your business
- Describe their track record and accomplishments
- Explain how key areas will be handled and by whom
- Providing an organizational chart may be useful
- Indicate any weaknesses in your management team and your strategy to overcome them
- Describe your compensation plan for key staff
- Describe your board of directors & professional advisors

Management is critically important to the success of a business. Investors or lenders are looking for a balanced team of people to cover the important areas of management, marketing, accounting, and the technical skills to deliver on your business plan.

Human resource management requires thinking about how you will recruit, screen, motivate, train and discipline the staff you work with.

Name the key people operating your business and outline the education or experience each (have resumes available in case they are requested).

Explain how key areas will be handled and by whom. An organizational chart may be useful.

Indicate contingency plans if a key person cannot work for an extended period of time.

Indicate any weaknesses in your management team and your strategy to overcome them and in what time frame. Training existing staff, recruiting new employees or hiring outside advisors (name them) are possibilities.

Indicate whether salary and compensation of managers and employees are competitive with the industry and whether you are offering incentives such as commissions, bonuses or profit sharing.

Name your board of directors or professional advisors and indicate how management will

use their experience and guidance. Indicate the timing and frequency of board meetings.

Recognizing the contribution of employees to an organization is one key to the growth and success of a business.

YOUR PRODUCTION PLAN

- How is the product manufactured or how will the service be provided?
- Where will the supplies and material be purchased?
- How is your product packaged, warehoused and shipped?
- What after-sales service is required (repairs, warranties)?
- What land, buildings, facilities and equipment are required?
- How will you access skilled labour if required?
- How does your business location serve your needs?
- What is the Breakeven Volume?
- What is the production capacity?

This is sometimes called the operating or manufacturing plan.

These questions are just some that you would ask yourself when preparing your production or operating plan. Remember, what is obvious to you may not necessarily be to your readers.

Preparing a brief outline of your business's basic operation is a good start but more details will be required when preparing the final Production Plan within the Business Plan as well as when preparing the Financial Plan.

YOUR MARKETING PLAN

Describe

- the industry in which you operate
- your strategy to penetrate or develop the target market
- your expected sales quotas
- your target market demographic
- your sales promotion plan
- your product's competitive advantage or the particular niche it fills in the marketplace
- the decision-making process for determining product and service pricing based on costs, competition, or what the market will bear

The Marketing Plan section of your Business Plan always receives particular emphasis. This part of your plan must describe concisely.

- the industry in which you operate
- your strategy to penetrate or develop the target market
- your expected sales quotas
- your target market demographic
- your sales promotion plan
- your product's competitive advantage or the particular niche it fills in the marketplace
- the decision-making process for determining product and service pricing based on costs, competition, or what the market will bear

A full marketing plan and strategy need not be included here but make sure to consider and evaluate different alternatives in the planning process before finalizing your marketing plan.

Make sure to address these four "P's" of marketing: Product, Price, Promotion and Place (location and distribution).

The plan should also strategically identify where you are now, where you want to go, and how you are going to get there.

Sales projection is critical. If required to make forecasts, provide at least three scenarios: "optimistic", "pessimistic" and "most likely"

YOUR FINANCIAL PLAN

- Financial Assumptions
- Capital Requirements Summary
- 3 -5 Yr. Profit and Loss Projections
- Balance Sheet Projections
- Cash Flow Summary
- Financing Schedule

As the process of creating financial projections for business revenue and expenses, cash flow and financial position requires the examination of all other key components, the financial plan is the backbone of your business plan. In doing this work you will be able to describe your plan in dollars and detect any discrepancies, gaps or unrealistic assumptions made earlier. The financial plan is valuable for creditors, investors, and government agencies when evaluating your company's needs and uses of funds.

Financial Assumptions

State clearly the key assumptions upon which your financial planning is based upon, such as: ingredient costs; number of retailers; packaging costs; suggested retail pricing; interest and commission rates; # of product SKU's

Capital Requirements

Investors and lenders will require detailed information on the capital purchases anticipated during the planning period as well as information on how these assets are to be financed and their expected useful life. Capital assets include land, buildings and equipment.

Profit & Lost Projections (3 to 5 Year Timing)

The Profit and Loss projection statement discloses annual revenues and

expenses of a business over the time period covered by the plan. For an existing business, include information for at least the last one or two years. An exercise is provided in the your workbook.

Balance Sheet Projections

The balance sheet describes the assets, liabilities, and equity of your business at a particular point in time. It is a widely used accounting statement that indicates the economic resources of your organization and the claim on those resources by creditors. This information will allow you and your creditors to compare your estimates, as well as you are past performance, against industry averages.

Cash Flow Summary

The cash flow projection may be the most difficult to prepare. Basically, it is an educated guess about when and how much money will come into and out of your business.

Your cash flow forecast will enable you to decide what you can afford, when you can afford it and how you will keep your business operating on a month-to-month basis.

This information is useful to indicate the projected increases or decreases of a bank loan that may be required during the year. Quarterly summaries are often adequate but occasionally monthly summaries are required for the first year of operation.

The cash flow summary will also be based on your policy of granting credit to your customers as well as your policy on collections of outstanding debts.

Financing Schedule

The financing schedule or loan summary provides a snapshot view of existing and new loans that will be held by your business.

Outline the interest rate being paid, frequency of payments, security given, type of loan (amortized versus non-amortized) and the expected term of the loan. For existing loans state the name of the financial institution.

GIVING YOUR PLAN THE RIGHT LOOK

- Single-sided, double-spaced
- White, 8.5" x 11" paper
- 30 – 40 pages maximum + Financials
- Colour Charts, Pictures, Sketches
- Table of Contents with page references
- Supplemental information in Addendum
- **NO TYPOS**

Compile your plan into a formal, well-organized and professional document. Your plan should include:
30 – 50, single sided pages in length, typed and double spaced, with adequate margins for adding notes and questions, plus the financial section.

Place the most essential information at the front

Ensure the main components can be read in five minutes or less

Avoid jargon

Use figures, charts, tables, photographs or sketches to make your report stand out

Include headings and subheadings to improve organization, along with a detailed table of contents

place supplemental information such as technical reports, studies, catalogues in the appendices.

Ask an outsider you respect to read your final draft and provide constructive criticism.