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IRAQ PRIVATE SECTOR GROWTH AND EMPLOYMENT GENERATION

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Writing an Effective Business Plan

A Workbook for Business Owners and Association Leaders



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Writing an Effective Business Plan

INTRODUCTION

A business plan is usually a substantial, in-depth, detailed document. Entrepreneurs, business managers and association leaders immersed in demands and pressing problems frequently lose sight of their vision. Business planning is capable of constructing important contributions to the success of any organization. A sound plan should:

- Align with your vision, values and mission,
- Offer framework for major decisions,
- Secure support or approval for new directions,
- Provide a foundation for more detailed planning,
- Explain long-range thinking,
- Assist in identifying performance indicators,
- Reflect benchmarks,
- Stimulate positive change and
- Become the backbone for next phase of planning.

This workbook offers you essential tools for high-quality business planning.

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I. Introduction of the Business Plan

Why Plan

Overview of Business Planning

From Vision to Reality: Values, Vision, Mission

Take advantage of all training that is offered to you
During the training ask yourself,
“How can I apply this to my work immediately?”

Questions to Guide the Process of “Writing an Effective Business Plan”

What are the long-term goals of your organization?

What is long-term for your environment?

Can you measure the distance to your strategic goals?

Do you have an exceptional business idea?

What are your plan assumptions?

How are your tactics identified and implemented?

Can you identify the key performance indicators?

What are your strengths and how will they be used?

What are your weaknesses and how will they be overcome?

What are your strategic market opportunities?

What threatens the viability of your plan and your organization?

Can you manage and analyze your risks?

What are your key operational strategies?

Can you describe your management team?

Have you evaluated financial sustainability?

I. Introduction of the Business Plan

Why plan?

Business planning is as much about thinking as it is about doing. Good planning and effective strategy starts with a powerful commitment. However, it grows and changes with the conditions of the local and global environment. Business is changing worldwide at a startling pace. Political and economic transformations are occurring everywhere as countries convert from command to demand economies, dictatorships move toward democracy, and monarchies build new civil institutions. Paradigm shifts create economic opportunities undreamed of in the past.

“Writing an Effective Business Plan” is an advanced technology capable of constructing important contributions to the success of your organization. Its synthesis is up to you—as leader. This seminar offers you the tools, but ultimately the task of setting your business plan into writing rests upon an organization’s leadership.

The business planning issues covered in this seminar include:

- An overview of business planning
- Contents of the summary statement
- Analysis of the existing business
- Industry analysis
- Market analysis
- Strategic Planning
- Market strategies
- Manufacturing and/or facilities plan
- Management team
- Financial analysis
- Mastery of the business planning process

In today's multifaceted and global business environment, executives, entrepreneurs, and managers must guide business planning to remain viable, competitive, and receptive to change. Widely shifting, fluctuating and uncertain economies, fierce competition, gyrating financial markets, rapidly changing technologies, as well as inflation, taxation, and regulation command our attention and place a high premium on business planning.

On the positive side of the growing globalization of our world are: falling trade barriers, communications moving at the speed of light, and disappearing time lags to move foreign products. These changes present venture opportunities to conduct business internationally. For example, over half of the market for technology products is outside the USA today. Trends in agriculture, manufacturing, and service industries point to expanding and/or emerging markets.

Time spent in planning now can mean the difference between success and failure. This course was specifically designed as a step-by-step guide to advance you through the planning process. We will help you to produce a formal business plan, one that is well thought out and professionally presented. You can expect a plan that is a working strategy to be referred to monthly, quarterly and annually. In the end, you will have a plan that should grow as you grow and that can be altered or modified to accommodate the changes in your organization.

Whether you operate in the profit or not-for-profit sector, it is critical to take time to develop your business plan, take time to update it frequently, and take time to review it regularly. The more time you spend on your business plan, the more your success ratio will increase.

As business owner herself for more than 25 years, Dr. Jalbert trainer has assisted hundreds of small, medium-sized, and large companies as well as universities, governmental agencies, and non-governmental organizations develop their business plans. Questions are welcomed and encouraged at all times. Don't be shy! Ask!

Overview of Writing an Effective Business Plan

Both strategic planning and business plan writing are the systematic development of actions aimed at reaching your desired business objectives. Whether operating in the profit or not-for-profit venue, planning is the difference between success and failure. Planning engages the processes of analyzation, evaluation, and selection of opportunities. A business plan, of which a strategic plan is a part, is a detailed written statement often comprising a hundred pages or more dependent on complexity. It tells why, how, and when a company will achieve specific objectives.

After preparing the overall plan, management should adopt a business strategy for action, often known as the "Strategic Plan." The focus on this course is the overall "Business Planning" process. Boards of directors, key personnel, prospective investors, and other interested parties need to know precisely how management will use money, human resources, facilities, and other resources. An organization's leaders are accountable and are expected secure the future. Methodical planning can promote achievement of this overarching goal. Success should not be left to luck, chance, circumstance, or whim.

If you are starting a business or a non-governmental organizational or working to improve your existing one, a well-conceived business plan delineates your thoughts, evaluates the competition, assesses your risks, and calculates your costs. A shortened version of the business plan follows your completed long variant. This short version summarizes your concepts. The short plan is for upper management, top supervisors, potential investors, bankers, attorneys, accountants, and other key people.

This workbook is a template only. The length and sequence of your plan will vary with the intricacies of the organization. However, every plan answers these six fundamental questions:

- **Who?**
- **What?**
- **Where?**
- **When?**
- **Why?**
- **How?**

Who identifies each person's specific responsibilities for accomplishing the strategic goals and objectives.

What represents all financial inflows and outflows as characterized in your financial statements and summarized in the Cash Flow Statement.

Where the business will be located is decided by its purpose, market competition, management capabilities, and opportunities for success.

When milestones are measured in financial and non-financial terms as outlined in the strategic plan, management will realize its achievements.

Why your organization will be successful is calibrated by market identification, market need, and product or service advantages. Remember the adage "find a need and fill it."

How depicts the company's capacity to implement the plan.

Step-by-step this course, **Writing an Effective Business Plan**, is designed to provide you with a guide to the business planning process. The course is intended to help you:

- ◇ Analyze your present organization, determine its current viability, and delineate long- and short-term goals.
- ◇ Raise capital and/or increase revenue from outside sources by being fully capable of writing and presenting a quality, professional business plan.
- ◇ Develop plan assumptions.
- ◇ Identify measurable performance indicators.
- ◇ Create and implement tactics.
- ◇ Design a detailed marketing and operational plan.
- ◇ Assess and maintain sustainability.
- ◇ Plan for a bright future.

Throughout the course, you will analyze your industry sector, your market, and your own organization. Through the function of data gathering and analysis, you will become aware of many important issues that you can then position into a cogent perspective. You will also appreciate where your company has come from and recognize where you would like it to go. In the end, you will have a strategic plan to guide your growth, and you will create a document that you can proudly present to boards of directors, banks, investors, donors, and others important to your development and sustainability.

Exercise 1 Individual Questions

What is a business plan?

What should be included in a business plan?

Who needs a business plan?

Why do we need a business plan?

Who should write the plan?

From Vision to Reality

Dreams (visions) are the power for changing the world.
Kim Woo-Choong
CEO-Daewoo

It's typical to allow external factors like economics, politics, culture, society, and a host of other reasons to drive the direction of your organization. In fact, every day will move along just like the day before, unless we as leaders, have the vision to steer our own course. A vision means different things to different people. To some people a vision is a picture, photograph, or image; to others a vision is a set of words representing a goal, objective, or mission; to another it is a sound, music, or auditory sensation. Today, we will consider vision to be a concept held in one's mind resulting in the ability to write a carefully worded statement.

It's probable that you already have a unique concept that may or may not have been articulated into a clear, concise written statement. In this written statement the configuration of words define what it is that the organization values. What words underpin the values of your organization?

Here's David Whitman's (Chairman and CEO of Wirlpool Corporation) vision concept as characterized in the book Going Global by William C. Taylor and Alan M. Webber.

Authors' Question: How do you respect national differences, navigate through a world of subsidiaries, strategic alliances, and joint ventures, and still maintain one corporate culture?

Whitman's Answer: You need a common strategic vision, a common set of values, a common set of performance goals and common measures of success.

What is a mission statement? It is a written company declaration: 1) that is clear, short and concise; 2) it is a sentence or two; 3) it is a powerful assemblage of words that tell the leadership, personnel, management, suppliers, and competition a) who you are, b) what you do and c) what you plan to accomplish/achieve/be.

What a "Vision" achieves is that it can:

- Provide a road map for future direction

- Generate excitement about future direction
- Create order out of chaos
- Instill confidence and trust in leadership
- Offer criteria for success

The next exercise “**Vision Your Mission**” has proven an insightful visualization exercise in assisting participants to fully articulate their desired mission. In a world of enormous and rapid change, company leaders must have the flexibility and innovation to meet the changes they face. Jeffery Goldstein noted in his recent book, The Unshackled Organization, that “A new future requires a new vision, and this new vision can bring about significant change only when it becomes embodied in new organizational practices.” The importance of a strong, mindful mission that can lead an entire organization is often underestimated. This exercise offers assistance in developing the idea (vision) and constructing a written statement (mission) all the while underpinned with an organization’s principles (values).

Recently, a workshop participant from the Russian Far East remarked that he really appreciated the vision/mission portion of the day. He said, “Before this process I thought the mission was just a meaningless slogan.” What he discovered during the progression of the “Vision, Values, and Mission” session was how important using an effective mission could be. Now it is the driving force to propel his company to strategic success.

Exercise 2 Visions Your Mission

Objectives	To imaginatively illustrate each participant's own perception of his or her desired mission. To picture in one's own mind's eye the precise goal optimistically expected to reach in the not too distant future.
Time	30-45 minutes
Needs	<ul style="list-style-type: none"> • Flipchart – Diagram the “Vision Pyramid” • Plain paper, pencils and/or pens • Masking tape for hanging the mission statement on the wall after debriefing the statements have been verbally shared with the audience, but only if the participants chose to share them • Colored markers to outline and emphasize the key elements of a mission statement • Overhead projector • Transparencies • Transparency markers • Handouts – Examples of mission statements
Process	<p>First take out a single piece of paper and a pen. Lay your pen on the paper. Place both in squarely front of you. Sit back in your chair. Push your lower back against the chair. Place your hands at your sides. Lean comfortably back in your chair. Relax.</p> <p>This is a thinking and imagining exercise. Thinking is often an element we do not allow enough time. This is your thinking and dreaming time. Enjoy it!</p> <p>Close your eyes. (Trainers you will need to repeat this several times as people often find it difficult to close their eyes. They feel compelled to peek.) Be gentle in tone</p> <p>Follow this set of verbal instructions:</p>

Do not open your eyes until I instruct you to do so.
You'll be told when to open your eyes at the end of the exercise.
Relax as deeply as you can.
Allow your mind to explore and wander.
Absolutely no talking.
Do not speak or utter a sound!

Take a deep breath, as deeply as you can. Let it out slowly. Take in another breath, pulling it in slowly to a count of ten. Now let your breath out slowly to the count of ten. Follow this procedure three more times taking in each breath as slowly as you can and releasing your breath as slowly as you can. Feel yourself sinking into a restful, relaxing repose.

Clear everything from your mind. For this moment you are letting go of stress, worry, and fatigue. With each breath you are cleansing your mind so it can roam freely, unfettered by daily restrictions. As you allow fresh air to enter your body and mind, for a moment picture yourself where you want to be with your company. Picture for your company who you are, what you do, and what you wish to achieve. Allow the breath to flow through your body so your ideas will be fresh and clear.

Remember vision can come in words, pictures, sounds, smells, and feelings.

Sometimes visions come when you are in a sheltered place like your home or an inspirational place like the beach, desert or mountains, or a relaxing place like when you are fishing, gardening, or playing sports.. Put yourself in your most safe, peaceful, restful, beautiful place. Let your mind play in black and white, colors, word pictures, whatever. Let your mind explore what you want, what your ideal mission is or should to be, and what you see for your future.

You are safe.

There is no risk.

Let your mission be as big as you can dream it to be. How big would you dream if you knew you could not fail and that you had no risk whatsoever?

In a moment I will stop talking. At this point we will observe three minutes of total silence so that you can hear only your thoughts. Do not open your eyes until I tell you. Now begin your three minutes of total peace and quiet.

Trainer Note - Time three minutes, make sure that you produce no noise, observe the participants, make sure their eyes stay closed.

Take in a deep breath, but **do not** open your eyes. Place your forefinger on your forehead in the soft space between your eyes. This is the space we call the third eye.

Pull the vision of your mission statement to the third eye space.

As your vision takes shape, add words, colors, images, lines, circles, sounds or whatever you need to make it real. Continue to examine your vision. Now formulate this vision into a sentence. Make

	<p>it clear, short and concise. The mission statement now</p> <p>represents two important elements: to be and to do. Take another big, deep breath. Take a breath as big as you can and release it fast, blowing it from your mouth. When you are ready, open your eyes, and write down the vision of your mission. Prepare the statement to represent who you are, what you do and what you want to achieve.</p>
Debrief	<ol style="list-style-type: none"> 1. Ask the participants: how did the exercise feel? 2. What did you learn about yourself or about your business? 3. Who would like to share their vision? 4. Can you state your mission statement in a minute or less? 5. With the permission of the participant ask for volunteers to read what they have written. Don't push. Some people will be extremely shy. Others will jump at the opportunity to read their powerful new statements.
Variation	<p>Trainer should adapt to his/her own voice cadence. Keep instructions of each step evenly modulated. Decrease time by eliminating steps. Add music.</p>

All that we see or seem is but a dream within a dream.

Aristotle

1. Write your Mission Statement. Follow these three steps/questions.

- A. Is it clear, short, and concise?**
- B. Is it less than one or two sentences?**
- C. Is it powerful?**

If you can dream it, you can do it.

Robert H. Schuller.

II. Contents of the Executive Statement

Snapshot of the Current Status of the Company

Strategic Opportunities

Thrust

Major Customers

Business Strategies

Plan Resources

Expected Benefits

Performance Measurements and Milestones

Cover Letter

Whether you think you can or think you can't—either way you're right.

Henry Ford

Executive Summary

Definition: The Executive Summary is written to summarize an organization's key business points, purposes, and features as defined in one's large-scale, full-blown business plan. It should facilitate the management team in identifying the company's main objectives and performance goals, highlight benchmarks, and quantify resources. It should entice and excite potential investors. For example, the Executive Summary should convey to the reader such things as: the nature (product and service) of the company; what market the company will compete in; what level of revenue it will reach in year one, year two, and year three; amount of net profits; amount of financing required (if any) to accomplish its sales goals; and so forth.

The Executive Summary encapsulates the major points of the master plan. Although the Executive Summary appears as the first section of your business plan, it is not written until the plan has been fully conceptualized, completed, and approved. The Executive Statement should comprise only a few pages, perhaps five to seven pages total.

Describe the elements envisioned in your Executive Summary

Snapshot of the Current Status of the Company

A status report should be your first paragraph in the Executive Summary statement. Write a snapshot of the current company status. Use a statistical viewpoint in this short paragraph. Include Information:

- a. For profit companies as
 - profitability, sales, products or services, employees, and other major company indicators or
- b. For non-governmental organizations as
 - average membership dues, non-dues resources, reliable sponsorships, number of members, services offered, and other key statistical inputs.

In one paragraph describe the current company status.

Strategic Opportunities

You wouldn't be writing a business plan if you didn't believe that opportunities for growth didn't exist. Outline what you perceive your major strategic opportunities to be. What are the overall objectives of the business plan? Describe, in brief, how company objectives and strategies will be developed to achieve projected results.

Discuss the company's strategic opportunities.

Company Thrust

Definition for Company Thrust

The company's thrust is its position within its industry and the direction the company is headed. Competition, risks, and the company's capabilities and objectives all factor into the "thrust" equation. Outline here the competition, risks, and the company's capabilities and objectives.

What is the company thrust?

Major Customers

Who desires to use your products and/or services? Describe your major customer base in terms of demographics, sales volume, growth potential, and other pertinent characteristics.

Who are your major customers?

Business Strategies

Your selection of business strategies is normally based on needs, objectives, and company thrust. From the company thrust, appropriate business strategies are identified and implemented.

Use caution when selecting business strategies. Many companies fail when too many strategies are pursued. Too many strategies often causes a company to lose its focus and direction. Not more than three strategies should be implemented during an established time schedule.

Remember that you need not attempt to work at all the strategies associated with the company thrust at once.

The three key business strategies are as follows:

1.

2.

3.

Plan Resources

Outline the resources needed to meet plan objectives. Identify money, people, management, technology, raw materials, equipment, and so forth.

If you are seeking a loan or a credit, partner investment, grants, or venture capital, explain your net cash requirements. Submit an abbreviated analysis of net cash requirements based on the business plan assumptions (total income, total costs, strategies selected, projected sales, net cash flow, and so forth) for all product or service lines. All major categories should be listed as line items and totaled to calculate the cash required to operate the business.

It is easier to lay out this area of discussion in a table format. Give the reader a picture with money issues rather than a narrative.

The resource requirements are as follows:

Resource Required	Amount

Expected Benefits

Describe how the company, the investor, or the grantor will benefit when your objectives are achieved.

What are the projected benefits?

Performance Measures and Milestones

Accountability is a key issue in success. Performance measures (sales volume, profit ratios, inventory turns, number of customers, membership, etc.) and milestones (distance, time, geography, etc.) should include both financial and non-financial indicators of the company's success. Financial indicators may include sales, unit costs and prices, average order size, and level of debt. Non-financial indicators may include number of customers, inventory turnover, order backlogs, products developed, and number of employees. Define measures and milestones that gauge your success in implementing strategy.

How would the performance of the company be measured?

Cover Letter: Purpose and Contents

A cover letter will introduce you and your product or service to a specific buyer or client. The most effective cover letter begins strongly, gets the reader's interest, and then asks for the desired response.

It is important to indicate when and for what reason you will follow-up. A direct, clear, and provocative letter will hold the reader's attention from the beginning to the end. Even if your writing skills are good, get feedback from another.

Key Points for Writing an Effective Cover Letter

1. Explain why you are writing.
2. State what the mutual benefit will be.
3. Begin strongly.
4. State immediately the problem or issue.
5. Introduce yourself and explain your business, service, or qualifications.
6. Be direct in asking what you wish to achieve.
7. Describe when and how **YOU** will make follow-up contact. Will you:
 - a. Answer questions
 - b. Discuss your idea in greater detail
 - c. Make possible arrangements for a meeting
 - d. Give a presentation
 - e. Describe further how you could work together
8. Edit the letter
9. Have the letter proofed by another
10. Include pertinent backup materials
11. Deliver promptly
12. Follow up as promised; follow up when promised

Exercise 3 Cover Letters

What is in your Business Cover Letter?

Who Should Receive the Letter?

What is included in the Letter's Contents?

III. Analysis of the Existing Business

Historical Information

Current Products and/or Services

Existing Markets/Future Markets

Identification of Current Customer Characteristics

Technology Assessment and Comparison

Forward or Backward Integration

Cost Analysis

Operational Resource Analysis

Company Strengths and Weaknesses (SWOT)

Key Success Factors

Base of Competition

Competitive Position Exercises

I'll study and get ready and then maybe my chance will come.

Abraham Lincoln

Answer these questions to summarize the company's historical information.

- What type of entity are you?
- Was the company state owned?
- When was it privatized? Pursuant to what method? Are you registered?
- What laws and/or regulations particularly affect your company?
- Who are the major shareholders?
- What role do they play?
- Do you have a Board of Directors?
- How active are they?
- What opportunity is there for additional financing from shareholders?
- What major accomplishments has the company achieved to date?

What products and or services are currently offered?

- Describe the product or service and its features.
- How is the product produced?
- How are services rendered?
- What is it unusual or unique? How? Why is it needed?
- Are there any significant environment, legal and regulatory issues related to your product?
- What patents, permits and licenses are required?
- What and where are your existing markets?

Can you identify your current customer characteristics?

How does your current technology compare to other companies?

Have you developed competitive cost comparisons?

Have you analyzed your current operational resources?

What are your company strengths and weaknesses?

What challenges has the company faced?

How has the company overcome these challenges?

Can you list the company's key success factors?

What is the company's competitive position?

Historical Data

You can't know where you're going unless you know where you've been. What is the character of your business today in relationship to where you once were?

This section will describe your comprehensive history. It should not be book length; rather, it should be approximately 5-7 pages of key events. This section highlights the significant events that have influenced the business since its inception.

Include in the history of the company these elements:

- State your mission
- State the original and/or current purpose of the company
- Describe the role each principal who significantly participated in the company's development
- Chronicle events that resulted in product and/or service development
- Provide the current organizational structure and one paragraph about each key personnel
- Chart historical and current trends in sales and financial performance (such as a Financial Performance Indicator Chart, Actual Monthly Sales, and Actual Year-to-Date Sales)

Jump start your thinking processes by answering the questions below:

What is the character of your business?

Current Products and/or Services

Outline whether the company is offering products or services. What is your market share? Are you focused on a specific niche? What give you competitive edge? Describe how the product or service lines differ from major competitors. A product or service line is a family of related products or services. Include product and service brochures in the Appendix of your business plan.

What products or services does the company offer now?

What products or services does the company offer or intend to develop?

Existing Markets/Future Markets

List the major market segments currently served. A market segment is a group of customers who exhibit some common trait, such as geographic location, age group, income level, customer need, buying habit, or other characteristic. Identify and specify the size of the market and the size of the company's share of the market.

What are the market segments the company currently serves?

What are the market segments the company intends to penetrate in the near future?

Identification of Current Customers Characteristics

Is the company's business is conducted with many or only a few customers. Do the customers fall into demographic categories? See the market segmentation listing in Section 5 Market Analysis for a detailed listing of demographic categories. List the company's largest customers. Beware of having all your eggs in one basket. Who and where are the largest purchasers?

Technology Assessment and Comparison

Benchmark technology of the company with that of the competitors or anticipated competitors. State why current technology is superior, comparable, or inferior. In what areas of technology is the company particularly strong? If there are important weaknesses in technology, indicate what they are and how they can be overcome.

Benchmarking definition: a literal definition is a mark cut into durable material like stone; in a business sense benchmarking is objective external comparison and analysis. It is a tool for obtaining the information needed to support constant development and to gain a competitive advantage. McNair and Leibfried define benchmarking as "an external focus on internal activities, functions, or operations in order to achieve continuous improvement."

With for-profit companies, like manufacturing, benchmarking is relative to control of overhead expenses, marketing pricing of raw materials, inventory control methodologies, state of the art technological processes, etc.

In non-governmental organizations, like business associations, benchmarking is relative to applying domestic and international "best practices" as related to services, media relations, advocacy processes, membership retention and recruitment, revenue generation, etc.

Is the company growing with industry trends in technology? Why or why not? Explain.

Forward or Backward Integration

Describe the integration slant of the company. Is it a forward or backward integrated approach? A backward integrated company owns or controls its supply systems. A forward integrated company owns or controls its distribution systems. Describe how your type of integration helps your business.

Is integration important to the company? If so, why? How does integration help?

Cost Analysis

Compare the company's costs with the industry standards. Estimating a competitor's costs, specifically companies that are small or not publicly traded, can be difficult. However, there are a variety of sources available that can help you estimate cost comparison data.

Specialized International Industry Reports: These sources of ratio data are specific to a single industry or industry group. Sources include trade associations, banks, specialized accounting firms, trade magazines, and governmental agencies.

Brainstorm: What are the main sources you can use to collect cost comparisons about your major competitors? List 5-10 sources here.

What are the company's costs and how do they compare with others in the industry?

Operational Resource Analysis

Describe below the facilities, capital equipment, master manufacturing schedule, raw materials, and labor force required to conduct business. For a manufacturing business, describe scheduling, purchasing, inventory, and production control. For a service business, describe location, equipment leasing, space, and labor force.

For an existing business, describe the facilities that are currently being used. Analyze each facility, if there is more than one, according to its function (office, storage, factory).

For a new business, describe how, when and where the facilities will be obtained. Will equipment and space be leased or purchased? What's the basis for leasing versus purchasing? Are you proposing financing? If yes: How much of the proposed financing will be committed to facility and equipment?

If you have or anticipate more than one facility, include the following information for each facility:

- ◆ Location-- Be specific. If the company rents in a large building, specify the square footage, floor or suite number as well as the physical address.

- ◆ Use and size-- Indicate how the space is used. Is it for offices, storage, factory, training space, and so on?
- ◆ Capacity-- Estimate the facility's capacity and its related equipment in terms of output, including usage per hour, units per day, number of workers that can be accommodated, or whatever other units of measurement are appropriate for the company.
- ◆ Capacity Utilization-- Estimate the percentage of the capacity of each facility that is currently being used; for example, the warehouse is usually 80 percent full or equipment is at two-thirds capacity with two shifts.
- ◆ Equipment-- List the types and amount of major equipment in each facility. Include manufacturing equipment, vehicles, furniture, fixtures, computers, copiers, etc. Estimate the percentage of utilization for each piece of equipment currently being used.
- ◆ Age/Capacity: Discuss the physical condition and age of the existing equipment, include the number of units that can be produced, what equipment is old, what is obsolete, and must be replaced in order to remain competitive.

Note what you will need to provide for operations.

Company Strengths and Weaknesses (SWOT)

SWOT Analysis

While all of the above variables must be examined from a strategic point of view, the traditional management process may also provide assistance to measure performance and analyze an existing business. This established process is summarized in the acronym "SWOT" which means strengths, weaknesses, opportunities, and threats. SWOT approaches critical variables in light of emerging organizational issues.

Company Strengths to Utilize

Company strengths can be identified here. Before you select the company's long-term strategies, it is important to recognize major strengths and determine how you can take advantage of them to promote growth.

What are the ways to utilize the company's strengths?

Company Weaknesses to Overcome

Every organization has weaknesses. Weaknesses should be carefully and honestly reviewed before you determine your overall company strategies. This thoughtful practice can save you time, money, and energy in the long run.

How can company weaknesses be overcome?

Opportunities

Just beneath of the surface of what we can see and predict lies a layer of unknown territory called “opportunity.” The ancient Chinese symbols for *crisis* are identical to the word characters for the word *opportunity*. The literal translation of the symbol reads, “crisis is an opportunity riding the dangerous wind.”

What market segments are currently under-served by your organization or underdeveloped by your entire industry? Before you select company strategies, identify markets that are not currently served. Use your broad scenario technique.

For example, many small businesses service one small geographic area. Other geographic areas might offer a new opportunity. For another business, different types of customers might offer a new opportunity.

Which of the currently neglected markets can be served by the business?

Threats

A threat is a market indicator that can cause harm to your organization. These indicators cannot be ignored or overlooked. Think of a business threat not as a roadblock, but rather as a signpost to initiate a directional change. Large looming threats should be fully conceptualized during scenario-building processes.

For example, many small businesses completely overlook competition. Has a market survey been conducted to accurately determine current competition? Another organization may be threatened by lack of capital. How can new sources of revenue be generated.

What are the largest threats to your operation today?

In the upcoming exercises, you will use the chart below entitled **Company Strengths and Weaknesses** to analyze your existing business as compared to your key competitors. Describe and compare the functions and resources. By utilizing the chart below, you can determine your company's competitive position relative to your key competitors.

Suggestions for functions are:

- Marketing: The activities involved in moving your products and services.
- Revenue Generation and Finance: The activities involved in collecting and disbursing money, including bookkeeping and other financial record keeping, budgeting, credit and collections, accounts payable, long-term financial planning, and raising capital for the business.
- Purchasing: The activities related to procuring the necessary equipment, materials, and supplies needed on an ongoing or periodic basis.
- Distribution: The activities and the series of steps by which a product or service is delivered to the customer.

Suggestions for resources are:

- Information systems: Effective automated and updated data-processing support for each functional area.
- Policies and procedures: Effective guidelines and mechanisms for planning, implementing, and controlling activities in each functional area.
- Management and personnel: Effective management skills, sufficient staff, and efficient reporting systems that provide information used for decision making.

Key Success Factors

A company's key success factors are the tools by which the company achieves its bases of competition. For example, if price is an important basis of competition, then being the low-cost producer is the corresponding key success factor. Depending on the structure of the industry, the key success factor might be refined to having low variable costs. When reputation is a basis of competition, the corresponding key success factor may be good quality control and field service. For each basis of competition identified, list one or more key success factors by which it can be achieved.

What are the company's key success factors?

Base of Competition

Bases of competition are known viable characteristics that customers exercise to choose a competitor. Bases of competition include price, technology, service, quality, reputation, location, delivery time, value-added services, reliability, and many other factors.

In preparing your competitive comparison, it is important to note that the data for determining the bases of comparison is difficult to find because it is not readily quantifiable. You should be able to discern the bases of competition by asking yourself a series of questions about the buyers in the market. Ask questions like:

- Do they buy strictly on price?
- Is quality a key factor in the buying decision?
- Is technology important?
- Is service or quick delivery more important than price or quality?

Another way to determine the bases of competition is by conducting a survey of buyers. A short, concise survey instrument focused on getting the answers to the above questions will provide you with tangible data. Conducting a survey may require more time, effort, and money, but it is often resources well invested.

Why do customers buy from the company or from the competitors?

What do customers expect?

Exercise 4, 5 & 6: Competitive Position SWOT Analysis

This exercise examines your competitive position within your industry by analyzing your strengths and weaknesses.

Objectives	To expand participants' understanding of benchmarking competition To develop a real picture of competitors
Time	30-45 minutes
Needs	Flipchart Colored markers Overhead projector Transparencies Transparency markers Handout: Company Analysis
Process	<ol style="list-style-type: none"> 1. Assign participants to teams of no more than 4 per team 2. Participant team tasks are: <ol style="list-style-type: none"> a. Self-select one team member's organization to analyze b. Identify bases of competition and success factors c. Assign a value or rating of 1 to 5; the weight of 5 indicated the best/top rating d. Add total score and compare e. Perform SWOT analysis 3. Exercise outcomes expected from the teams are: <ol style="list-style-type: none"> a. Completion of "Company Analysis" handout 4. Instructions <ol style="list-style-type: none"> a. Team should self-select one member b. Use this one organization to create a competitive analysis c. Good interaction as team members give input as "expert consultants" d. Self-selected member should give debriefing of key strategic points within 5 minutes
Debriefing	One team member should be selected as a spokesperson. Use the graphic as a visual and augment with a verbal description of the exercise at conclusion.
Variation	Prefer not to vary this exercise

Exercise 4 : COMPANY ANALYSIS: Recognizing Strengths & Weaknesses

COMPETITIVE POSITION OF COMPANY FUNCTIONS

Functions	Weight (1-5)	Your Organization	Competitor A	Competitor B	Competitor C
General Administration					
Marketing					
Products					
Services					
Finance					
Human Resources					
Technology					
Production					
Purchasing					
Distribution/Delivery					
International Opportunities					
Value-Added Services					
Other:					
Total Score					

SWOT Analysis of Competitive Position of Company Functions

Strengths	Weaknesses
Opportunities	Threats

Exercise 5: COMPANY ANALYSIS: Recognizing Strengths & Weaknesses

COMPETITIVE POSITION OF COMPANY RESOURCES

Functions	Weight (1-5)	Your Organization	Competitor A	Competitor B	Competitor C
Information Systems					
Policies					
Procedures					
Management					
Human Resources					
Technology					
Facilities					
Other:					
Total Score					

SWOT Analysis of Competitive Position

Strengths	Weaknesses
Opportunities	Threats

Exercise 6: COMPANY ANALYSIS: Recognizing Strengths & Weaknesses

COMPETITIVE POSITION

Bases of Competition	Weight (1-5)	Your Organization	Competitor A	Competitor B	Competitor C
1.					
2.					
3.					
4.					
5.					
Success Factors					
1.					
2.					
3.					
4.					
5.					
Total Score					

SWOT Analysis of Competitive Position

Strengths	Weaknesses
Opportunities	Threats

IV. Industry Analysis

Defining the Industry

Estimating Industry Size and Growth Rates

Key Growth Factors

Seasonality

Industry Life Cycle

Financial Operating Characteristics

International Influences

Luck is opportunity meeting preparation.

Maury Wills

Industry Analysis Questions

Can you define the current status of your industry?

- Can you estimate the industry size and growth rate?
- What are the key growth areas in the industry?
- Is your industry effected by seasonality?
- Does your analysis reflect growth? Is growth flat? Are there fluctuations?

Can you predict or assess the industry life cycle?

In your industry, what are the financial operating characteristics and trends?

How fast does industry capital turn?

What is the profit margin for your industry?

To what extent is the industry dependent on the overall country economy?

Does your analysis reflect growth? Is it flat?

What is the influence of governmental bodies on the whole industry?

Is technological development linked to industry development?

Does the industry present ecological impacts?

How fast does industry capital turn?

What is the profit margin for your industry?

To what extent is the industry dependent on the overall country economy?

What is the influence of governmental bodies on the whole industry?

Is technological development linked to industry development?

Does the industry present ecological impacts?

Process to Defining the Industry

To understand your competitive role and position in your industry, it is first necessary to analyze the current status of the industry and to forecast the conditions in which the business now operates. By thoroughly understanding the current picture, you can then project your vision of the industry's future. The overall process begins by illustrating the major companies you competes with directly or indirectly. Enterprises that offer the same product or the same service in the same market are competing directly. Companies that offer similar or substitute products In the same or in an overlapping market are competing indirectly. Remember this section is centered entirely on the industry as a whole—not one company or a few companies, but the whole industry.

The industry characterization should include:

- A portrayal of your industry's economic sector, such as manufacturing, distribution (wholesale or retail), or services.
- A list of the product lines or service lines offered within the industry.
- A description of the geographic scope of the industry. Is the geography local, regional, national, or international? Again, this is the geographic scope of the overall industry. Geographic scope is ascertained by the markets in which products or services are offered by most competitors, not by the size or scope of individual companies.
- A description of the market scope of the industry. Market scope is determined by the size or scope of individual companies currently on the playing field, and includes the demographics and psychographics of the market.
- A list of products or market segments. For example, a computer manufacturer may divide its industry into five market segments: personal computers, microcomputers, minicomputers, mainframes, and business that does not involve computers such as software sales, peripheral components, repairs, training, etc.. Few competitors operate in many or all segments, most operate in one or two.

Key Discussion Points for Industry Analysis: Industry Economic Sector

Range of Products, Goods or Services

Geographic Scope

Market Segments

Estimating Industry Size and Growth Rates

How can you determine the current size of your industry for the company's product or service? Estimate the total industry size in annual dollars or units. Where will you collect this data? What sources are available for this research?

After collecting data to assess the current size of the industry, next determine the industry annual growth rate and compare it to the projected annual growth rate for the company. You will gain valuable information by estimating your competitors' growth rate and the overall industry growth rate relative to your own growth calculations.

Growth rates are normally stated in terms of percentage increase or decrease in growth. Relative percentages are sales volume, unit volume, production capacity, employment numbers, etc. Explain your company's position in relation to the industry as a whole. At what rate is the business growing as compared to the industry?

What sources are available to help you define industry size and growth rate?

What is the predicted industry size and growth rate?

Key Growth Factors

Industry key growth factors are trends and conditions beyond the control of the industry or of the companies operating within the industry. There are significant growth factors that affect the industry's market size and level of demand like population growth or decline, fads or fashions, technological advances, and so on.

What are your current trends and conditions?

Key growth factors are as follows:

Seasonality

Seasonality often brings to mind the agricultural sector; however, it can affect the business activity for many companies, like retailers who have a boom during holidays and a low preceding a holiday. Recognize seasonal highs and lows in your industry. Identify the industry's seasonal patterns and estimate the sales distribution throughout the year. If an industry lacks a seasonal pattern, it is reasonable to expect that its sales will be distributed fairly evenly throughout the year. Seasonal industries have a disproportionate amount of activity in one part of the year and correspondingly less in the others. Another example would be ski retailers who do about 60 percent of their year's business in four winter months. Construction is typically a seasonal industry hitting their high point during summer months.

What is the seasonal pattern of the industry? List the factors.

Financial Operating Characteristics

It is very helpful to compare financial operating characteristics that are directly related to your business with corresponding characteristics that are related to the overall industry. Identifying trends lends credibility to your strategic decisions. Information may be difficult to obtain so your first step is to focus on the data gathering processes. There will be differences with respect to definitions, product lines, small sample sets, statistical reliability, and so forth. Irrespective of differences, collect and compare information as thoroughly as possible.

Gathering Information

How can you find information concerning Financial Operating Characteristics?

Ratios

Another Financial operating characteristic is the use of ratios. In general, ratios are classified into four basic types: liquidity, leverage, activity, and profitability. Select the ratios which are most important to your industry. Then compare your company to the overall industry standards. Remember that a ratio is not very meaningful in itself. To be useful, ratios must be compared in a trend analysis or to competitors or to the industry.

Use basic financial ratios to evaluate the company's past and present position. These ratios will enable you to estimate the chances of acquiring funds. For example, a bank that is considering granting long-term leverage will emphasize earning power and operating efficiency. The firm must be able to repay its debts as well as earn profits. For detail on ratios, refer to Section 10 Financial Analysis.

Exercise 7 Industry Life Cycle

This exercise examines your maturity level and life cycle of your industry. In the following exercise you will assess industry life cycle. Again, remember that you are considering the industry as a whole, not an individual company.

Objectives	To determine the current stage of the company's industry maturity
Time	30-35 minutes
Needs	Flipchart and Colored markers Overhead projector Transparencies and Transparency markers Handout: Industry Life Cycle
Process	<ol style="list-style-type: none"> 1. Assign participants to teams of no more than 4 per team 2. Participant team tasks are: <ol style="list-style-type: none"> a. Team should self-select one industry b. Review the criteria listed in the left hand column of the chart. c. Indicate the current stage of maturity of the industry by putting an X in the appropriate column. d. Determine the overall industry stage of maturity by looking at the distribution of X's. There are no absolute rules as to when an industry moves from one stage of maturity to another. 3. Exercise outcomes expected from the teams are: <ol style="list-style-type: none"> a. Completion of "Industry Life Cycle" handout b. Draw the industry's "Time Line" 4. Instructions <ol style="list-style-type: none"> a. Team should self-select one member b. Use this one organization to create a competitive analysis c. Good interaction as team members give input as "expert consultants" d. Self-selected member should give debriefing of key strategic points within 5 minutes
Debriefing	One team member should be selected as a spokesperson. Use the graphic as a visual and augment with a verbal description of the exercise at conclusion.
Variation	Prefer not to vary this exercise

Exercise 7: Industry Life Cycle

Criteria	Embryonic	Growth	Mature	Aging
Growth Rate				
Market Share				
Product Line				
Service Line				
Financial				
Competitors				
Market Stability				
Purchasing Patterns				
Ease of Entry				
Technology				
Managerial Style				
Other:				

SWOT Analysis of Industry

Strengths	Weaknesses
Opportunities	Threats

V. Market Analysis

Market Scope and Distribution

Market Segmentation

Niche Marketing

Market Demands, Changes, and Trends

Major Customers

Sales Tactics

Distribution Channels

Pricing Trends

Advertising, Promotion, and Public Relations

Major Competitors

Projected Market Share and Future Sales

The more you know the more luck you will have.

Chinese Proverb

Market Analysis Questions

What is the market scope and market distribution of your industry's market?

Do you know the market segmentation within your industry?

- What is the estimated size of the market?
- What is the market's anticipated growth?
- What are the market demands, changes and trends?
- Identify the most significant market opportunity.

Who are your major customers and where is the concentration?

- Where are your customers located?
- What is most important to customers?
- Is customer need being met?
- Can you meet customer need timely?
- What sales tactics are you using and what do you plan to implement?
- What are your distribution channels?

Do you have export sales?

What are the pricing trends in the industry, and what is your pricing policy?

What are your promotional and advertising channels? Have you designed a media campaign?

Who are your major competitors?

- What emerging or potential competition does the company face?
- What are the strengths and weaknesses of the competitors?
- What are your advantages? Are they sustainable?
- What are your competitive weaknesses? Can you vanquish them?

What is your current market share?

Can you project your future market share and future sales?

Why do customers use your product instead of alternatives?

What opportunities can you exploit?

Market Analysis

"What we have here is a failure to communicate," opened Al Ries and Jack Trout in the introduction in their book, Positioning: The Battle for Your Mind. Published in 1981, this book is considered a classic for it offers timeless advice on how to position the product or service of your company before the consumer. Ries and Trout further profess, "Failure to communicate is the single, most common, most universal reason people give for their problems . . . business problems, government problems, labor problems, marriage problems." Whew! That's a lot of problems. Let's eliminate some of these communication problems for your business by analyzing your market which will lead to creation of a marketing plan.

Developing an effective marketing plan, your company's principal communication tool, is one of the keys to your business success. All entrepreneurs have the capability to conduct market research, at practically no cost. Now let me qualify that statement by saying: while it will probably not be projectable or scientifically accurate, an entrepreneur can usually find the information they need to know without bankrupting their business on expensive New York Madison Avenue marketing research.

You must first concentrate on what answers you need, rather than mindlessly collecting volumes of unusable information. For the small and medium-sized enterprise (SME) market, research is a guide to decision-making in a variety of areas including product development, pricing, packaging, positioning, sales messaging, marketing strategies, promotions and public relations. Consolidate marketing efforts into these four areas: product, price, promotion and place.

To conserve time and money, let's stay focused on the customer's needs and concerns. Ask these questions to jump start your market research.

Product/Service

- What are the real reasons customers will want your product or service?
- What are the most important considerations a potential customer has when making a purchase decision of your product or service?
- What is the competition offering?
- What are the differences and similarities of what the competition is offering?
- How can your product or service meet customer needs better, cheaper, faster, more efficiently than the competition?
- Are there other problems or needs that you can fill that the competition isn't?

Price

- What is the "going" market rate for your product or service?
- How can you segment the competition's prices?
 - Who is at the high end of the scale?
 - Who is at the low end of the scale?
 - What do the competition offer that is different from you?
- What segment are you trying to address?
 - You can't build the image of top quality and yet offer the lowest prices, pick one precise goal.

- Can you package your products or services differently than the competition to provide more value to the customer?

By doing this can you maintain or improve your profit margin?

- Are there price thresholds for different products or services?
- Should discounts be offered (consider volume, seasonal or repeat business for possible discounts).

Promotion

- What are the most important considerations customers have about purchasing your product or service?
- What are the primary and secondary benefits to your customer.
- Can you point out the benefits to using your product or service in a simple, articulate way?
- What is the one main idea you want to communicate?
Can you communicate this idea a 20 second "elevator" speech?
- What do you want the customer to do? Place an order? Purchase an item?
Schedule an appointment?

Place

- Are you selling to other businesses or directly to consumers?
- How can you segment your markets -- geographically, by industry, by size of customer, by volume of sale, by lifestyle?
- Is location important to your buyers?
- When you sell, who is the decision-maker?
- Will you target the middle-man or the end user?
- What about referrals? Who can recommend your product or service?
- What is the current demand for your product or service in the marketplace? (If there's NO demand change businesses NOW! or figure out how to create a demand.)
- Who has the largest share of the market today? Why?
- How many competitors have gone out of business recently? Why?
- What share of the market does your closest competitor have?

Now you have an idea of the questions that you need to ask. Write down new questions sparked from other sources of stimulation which are specific to your product or service. It's time to go out and get answers. Here is a list of suggestions to get you started. If someone you contact doesn't have the right answer, ask them for a referral. They just might know where you can find exactly what you want.

- 1) Start by talking with your customers. Ask them if you are meeting their needs. What could you do better or different?
- 2) If you are a start-up and you don't have any customers yet, talk to your potential customers. This is scary for most people. Try it anyway.
- 3) Talk to your competition. Some will share. Some won't. Or ask someone to do it for you. It's done all the time. It's call investigative research. It's a great way to learn.
- 4) Libraries have entirely too many resources to list, but should not be overlooked.
- 5) Meet with trade associations. Read trade magazines. It's their job to support member's success.

- 6) Chambers of Commerce collect tons of facts and figures. Be clear on what you want from them. For instance, our local chamber has traffic counts on major streets. This is essential information for selecting a successful retail location where sales are dependent on people walking by or driving by.
- 7) Seek out small business support centers.
- 8) Don't forget governmental statistics.
- 9) Network, network, network -- This is the process of contacting someone who owns or who does business in the same market. Circulate and ask for names of people who might help you. Someday, you'll be asked to do the same. Be sure to give back. We call this "reciprocity." The Jalbert definition of reciprocity is "always give back more than you receive, and when you're done giving, give more."

If you ask and answer the above questions and seek out solutions from resources listed here, you will be well on your way to developing and initiating your own marketing plan. Don't let the plan stagnate on a bookshelf. Customers and competitors change with great rapidity. As a business owner, the longer you've had the enterprise, the more adept you will become at assessing market needs, trends, demands and changes.

Other questions specific to my organization not asked above.

Market Scope and Market Distribution

What is the geographic outreach of your industry's market and of your enterprise? To answer this question, you need to consider two things:

- Market scope: Market scope may be local, regional, national, or International. Below describe the scope of the company's market.
- Market distribution: If the market is not local, describe the distribution (wholesale, middlemen, representatives, retail, etc.) methods used. What is customary in the industry? What market distribution methods work best for your company?

What is the scope of the company's market?

What are the methods used in the industry?

What are methods work best for your company?

Market Segmentation

Can you adequately segment your market? A market segment is a cluster of customers who are allocated a set of common characteristics. These character sets differentiate one group from another group of customers. Most market segments share one or more of the following characteristics:

Geography

- Region
 - Local
 - Regional
 - National
 - International
- City size
- Density
- Climate

Demographics

- Age
- Sex
- Family size and status
- Income
- Occupation
- Education
- Religion or culture
- Social class

Psychographics

- Life style
- Personality
- Purchase occasion
- Benefits sought
- Usage rate
- Degree of loyalty
- Sensitivity factor

What are the characteristics of your company's market segments?

Niche Marketing

Can I compete against a bigger company?

Should I specialize in a certain area?

How do I know if what I specialize in will be successful?

As a business owner have you ever asked yourself these questions? I know that I have and so have a number of my clients. The answers are yes, yes and find a niche market.

What is a niche market? A niche market is finding a smaller group of customers (target segment) within a larger group of customers (market segment) that you can fulfill a special need. You specialize in one or two particular products or services. For example, instead of practicing all elements within the legal system, a law firm decides to specialize in mergers and acquisitions only. They may do little else, but they do their niche excellently and become quite well known in these areas.

Higher prices/higher quality is another marketing niche you might want to use. This strategy is especially useful for a company wishing to enter a new market or a smaller company with limited resources. Opposite to this strategy is lower prices/faster turn around. This strategy is advantageous when there is a lot of competition and you want the job. Shout it out that you can do it better, cheaper, faster.

Before you develop a niche market think about whether or not these characteristics are present:

- The niche is of **sufficient size** and **purchasing power** to be profitable for your effort.
- The niche has growth potential.
- The niche is of negligible interest to larger competitors.
- The company has the required resources (people, money, raw materials, distributions channels, etc.) and technical skills to serve this niche.

If these characteristics are present “niching” can be very profitable. Often the market “nicher” gets to know the new target segment so well that loyalty and goodwill are quickly developed among customers. The “nicher” is able to meet the needs of their customer better than mass marketers who are casually selling to the same market. As a result, the “nicher” can often achieve a higher margin by a higher markup over costs for this added value.

There are risks to be considered in niche marketing. The market niche could dry up or be attacked by larger companies if they see it as highly profitable. Provided you have the resources available to do so, a good strategy is to multiple-niche. This is to find two or even three niches. You might want to use “niching” as one of many marketing strategies or as a stand alone strategy. Setting up several marketing strategies (Plan A, Plan B, Plan C, etc.), you will increase your chances for survival in the marketplace.

Examples of successful niche marketing:

- Restaurants - instead of serving all kinds of food McDonalds specializes in hamburgers. The same theory holds true for Kentucky Fried Chicken, Pizza Hut and Mrs. Fields Cookies. They offer the best in their niche. I didn't say the best food. Rather I said the “best in their niche.” Note the difference.
- Accountants - with the complexity of taxation, accountants are finding specialization to be effective for client retention. The market is becoming segmented into real estate, individual, partnership, corporate, estate planning, retail, agriculture, manufacturing, and many other “niche” taxation areas.
- Artists - with computer wizardry expanding as fast as a blink, a niche has opened for graphic artists who are applying their craft to technology in unique and exciting ways, including advertising, promotion, computer generated graphics, etc.

A plethora of examples exist. What's more important is that you explore where a niche might exist within your geographic, product or service area, and whether or not niche marketing is suited to what you do. Is niche marketing a problem or opportunity? It's said that problems exist to be solved. Find out if there's a niche awaiting you.

Describe potential niches (target markets) currently located inside your market segment.

Market Demands, Changes and Trends

To compete effectively an enterprise must stay current with market demands, changes, and trends. Describe how these factors may alter in your foreseeable future.

- Might demand increase or decrease?
- How are changes in the geographic distribution of the market arising?
- Is there an emergence of new segments or the disappearance of some segments?

What factors may occur in the immediate future?

Major Customers

Describe the primary types of customers served by your industry and the key characteristics of those customers. The main customer categories are:

Consumers -- age, income, family size, proximity

Companies -- size, type, ownership (independent or franchise operation)

Industry -- size, type, ownership

Government-- local, state, federal

For companies: describe a typical customer. Or for not-for-profit organizations: describe a typical member as well as a typical sponsor.

Potential customers/members/sponsors include:

List your major customers and percent of total sales here.

Major Customer	% of Total Sales

Sales Tactics

Sales promotions will increase your exposure and income through periodic, one-time efforts such as discount certificates, complimentary services, two-for-one offers, public displays, demonstrations, exhibits, and trade shows. These will provide ongoing support and periodic boosts to your Direct Sales promotions

What methods do you use or intend to use to sell product or service? Do you have established margins, commissions, discounts, etc.? How do these elements compare to your competitors? How do these elements compare to industry standards?

Describe any your policies and procedures related to discounts, exclusive distribution rights, branch offices, sales representatives, and so on. Indicate the company's normal sales terms, pricing lists, and collection policies. What percentage of sales are made for cash or credit? What percentage of services are paid upon receipt? What discounts are offered to induce rapid payment?

How will the company sell its product or service?

Describe special company policies and procedures.

What are the company payment policies?

Distribution Channels

A number of possibilities exist today to distribute goods and services. Selling direct as a wholesaler is a typical beginning. A company could also use middlemen such as distributors, retailers, sales representatives, network marketing, etc.

Describe your company's channels of distribution.

Pricing Trends

Pricing policy is crucial to success. Although "The Price Is Right" rings today as a popular TV game show, the title couldn't be more correct when it come to getting a product or service to a market. The price must be **right** not only to penetrate a market, but also to maintain market position, market share, and produce profits.

What trends in pricing for major products or services have occurred in the past three years? Have the company's prices been rising faster or slower than the overall inflation rate? Have the company's prices been rising faster or slower than the competitions?

Outline your pricing trends here.

How will you preserve competitiveness in your pricing?

Advertising, Promotion, and Public Relations

What are the company's advertising channels? What are its advertising, promotion and public relations costs? Advertising channels include direct mail, publications, and other types of media. Products and services may be advertised on an individual basis or cooperatively, as when a manufacturer and retailer share the cost of local advertising. Promotion related to image items like company stationery, business cards, demonstrations, presentations, seminars, trade shows, etc. Public relation channels pertain to community activities like sponsoring a charitable fundraiser or involvement with the arts.

Advertising, promotion, and public relations costs are best calculated as a percentage of gross sales or revenues. Sources for general percentage is available through industry information guides which include trade associations and trade publications, advertising agencies, advertising associations, and advertising industry publications. Has the ratio of advertising costs to sales been increasing or decreasing over the past three years?

What is the company's advertising, promotion, and public relations strategy?

What are the company's advertising, promotion, and public relations costs?

How do the company's advertising, promotion, and public relations costs compare to industry standards and to major competitors?

Major Competitors

Benchmarking and best practices encourage an organization to chart the profiles of major competitors. Create a competitor profile to measure your competition. A competitor profile presents key information about the market players. You can use it to determine your company's relative competitive position. You can also use it to identify possible strategic responses to competitors' actions.

In completing the profile, include information about each major competitor and any potential competitors. When competitors are large corporations, identify which part of the corporation the company is competing.

Rank the company's major competitors by the items below or add items you feel are most pertinent.

- ◆ **Sales volume:** To find competitor's sales volume, you need to use published information, if available, or your own estimate of sales. Use annual reports, trade association publications, industry standards, or other extractable information.
- ◆ **Growth rate:** Use industry averages to indicate if the growth rate for each competitor is high, medium, low, unchanged, or declining.
- ◆ **Market share:** Estimate the percentage of the market attributable to each competitor. Use your own assessment of the competitors and their products. Translate the estimate into total market size and compare it to the overall industry size. To locate industry size, refer to your calculations in the section entitled, "Industry Analysis."

- ◆ Degree of Integration: Indicate whether the competitors are forward or backward integrated and to what degree. Make a mental note on why forward or backward integration may impact your product or service.
- ◆ Strengths and weaknesses: Assess competitors' strengths and weaknesses pragmatically. It's natural to always consider yourself the better competitor, the better provider of goods and services. Ask yourself: is my assessment realistic? Consider the quality, volume, timeliness, and reliability of individual products and services. List specific examples of what competitors do particularly poorly or particularly well. List both objective measures (lower purchasing costs, outdated production equipment) and subjective measures (a reputation for high quality or for poorly trained service personnel).
- ◆ Total sales volume and average growth rate: Based on your history in the marketplace, estimate each competitor's average growth rate. Use percentage figures or qualifications such as: higher than, the same as, or lower than the industry growth rate?
- ◆ Competitor's market share: Assess market share as 100%, then back into the approximate amount of market share that each competitor possesses. Estimate market share as centered on your own assessment of competitors and their products. Translate your estimate to the total market size and compare it to industry size. Remember to find industry size, refer to your calculations in the section entitled, "Industry Analysis."
- ◆ Other: What factors are missing that impact your overall competitive advantage? List anything additional that your organization should rank.

Exercise 8 Major Competitors and Competitor Profile

This exercise examines key factors that directly impact your effectiveness as a competitor. Compare your major competitors to your marketing position.

Objectives	To expand importance of knowing and understanding competitors To develop a real profile of major competitors
Time	30-45 minutes
Needs	Flipchart Colored markers Overhead projector Transparencies Transparency markers Handout: Company Analysis
Process	1. Assign participants to teams of no more than 4 per team 2. Participant team tasks are: a. Self-select one team member's organization to analyze b. Identify competitors and key profile items c. Add total score and compare e. Perform SWOT analysis 3. Exercise outcomes expected from the teams are: a. Completion of "Competitor Profile" handout 4. Instructions a. Team should self-select one member b. Use this one organization to create a competitive analysis c. Good interaction as team members give input as "expert consultants" e. Self-selected member should give debriefing of key strategic points within 5 minutes
Debriefing	One team member should be selected as a spokesperson. 5 minute limitation on presentations.
Variation	Prefer not to vary this exercise

Exercise 8 MAJOR COMPETITOR PROFILE

Competitors	Sales Volume	Growth Rate	Market Share	Degree of Integration	Strength	Weakness
1. Your Company						
2.						
3.						
4.						
5.						
6.						
Total Sales Volume	xxx					
Average Growth Rate		xxx				
Total Market Share			100%			

SWOT Analysis of Major Competitors

Strengths	Weaknesses
Opportunities	Threats

Projected Market Share and Future Sales

We know that to stay competitive in a market economy annually we must continually take a larger portion of the overall market. Market share is the amount of estimated sales to a specified customer base (segment) in a specified geographical area within a specified period (usually one year). How do you project your market share and your future sales. Do you see growth potential? Do you see a decline?

Create an estimate based on your assessment of the customers (members) and their acceptance of the product or service, the size of the market, trends in the market, and the competition. Market share and sales estimates should be done monthly for the next fiscal year and yearly for the next three years. These figures then translate into your financial forecasts. The growth of your sales should be related to the industry growth rate. For example, if the industry is growing at an annual rate of 15 percent, then your company's growth rate should be approximately the same.

What market share of the total industry size does the company represent now?

Indicate units and revenue that the company can achieve in one year. In three years how will sales change?

Exercise 9 Marketing Plan Practice Exercise

This exercise examines your overall market position within your industry and within your geographic location.

Objectives	To expand participants' understanding of developing a complete marketing plan
Time	45-75 minutes
Needs	Flipchart Colored markers Overhead projector Transparencies Transparency markers Handout: Marketing Plan Practice Exercise
Process	<ol style="list-style-type: none"> 1. Assign participants to teams of no more than 4 per team 2. Participant team tasks are: <ol style="list-style-type: none"> a. Self-select one organization to analyze b. Review the attached worksheet "Marketing Plan Practice Exercise" c. This is a valuable opportunity for participants to understand deeply one another's organizations d. Carefully complete the entire exercise 3. Exercise outcomes expected from the teams are: <ol style="list-style-type: none"> a. Completion of "Marketing Plan Practice Exercise" handout 4. Instructions <ol style="list-style-type: none"> e. Team should self-select one member f. Use this one organization to create a competitive market analysis and simulated plan g. Good interaction as team members give input as "expert consultants" h. Self-selected member should give debriefing of key strategic points within 5 minutes
Debriefing	One team member should be selected as a spokesperson. Use graphics for visual debriefing. Augment with a verbal description of the exercise at conclusion. 5 minute limitation.
Variation	Prefer not to vary this exercise

Exercise 9 Marketing Plan Practice Exercise

Organization Name:

Mission:

I. MARKET ANALYSIS

A. Target Market - Who are the customers?

1. We will be selling primarily to (indicate all that apply):

<u>Customer</u>	<u>Total \$ of Business</u>
Private sector	_____
Wholesalers	_____
Retailers	_____
Government	_____
Other	_____

2. We will be targeting customers by (indicate all that apply):

Products lines and/or services	_____
Geographic areas	_____
Personal selling	_____
Mass media advertising	_____
Industry	_____
Other	_____

3. How much will our selected market spend on our type of product or service this coming year? Estimate \$'s _____

B. Competition

1. Who are our competitors? Name three.

Company X Company Y Company Z

Name

Years in Business

Market Share

Price/Strategy

Product/Service

Features or Attributes

2. How competitive is the market? Circle your answer. High Medium Low

3. List company strengths and weaknesses as compared to the competitors listed above (consider such areas as location, size of resources, reputation, services, personnel, pricing, quality, added value, etc.)

Strengths

1. _____

2. _____

3. _____

4. _____

Weaknesses

1. _____

2. _____

3. _____

4. _____

C. Environment

1. List important economic factors that will affect products and/or services (such as country growth, industry health, economic trends, rising energy or raw materials costs, inflation, etc.)

2. List important legal factors that will affect our market:

3. List important government factors that will affect our market:

II. PRODUCT OR SERVICE ANALYSIS

A. Description

1. Describe what the product/service is and what it does:

B. Comparison

1. What advantages does the product/service have over those of the competition (consider unique features, patents, expertise, special training, consumer preferences)?

2. What disadvantages does our product/service have?

C. Considerations

1. Where will you get our raw materials and supplies?

2. List special considerations for our product or service:

III. MARKETING STRATEGIES

A. Image

1. What kind of image is projected (such as cheap but good, or exclusiveness, or customer first or highest quality, or convenience, or speed, or . . .)?

B. Features or Attributes or Benefits Specified

1. What is unique, different, or special about our product or service:?

C. Pricing

1. What pricing strategy will be followed? Check the appropriate strategy.

- | | |
|--------------------|----------------------|
| a. Markup on cost | d. Below competition |
| b. Suggested price | e. Premium price |
| c. Competitive | f. Other |

2. What is our percentage of markup? _____

3. Are our prices in line with your image? Circle YES or NO

4. Do our prices cover costs and leave a margin of profit? Circle YES or NO

D. Customer Services

1. List customer services provided:

2. What is our company policy for sales and/or credit terms?

3. What sales and/or credit terms do the competition offer?

4. What services should be added to serve customer needs?

E. Advertising/Promotion

1. Develop a Unique Positioning Statement (UPS). This is what we want to say about our business that tells what we do. The UPS is not a mission statement, rather it reaches out to our customer base. The UPS is more than a slogan. Practice developing a UPS for your organization

2. Check the following advertising/promotion sources to be used:

Television	Direct Mail	Newspapers	Packaging
Magazines	Personal Contacts	Radio	Special Labels
Trade Shows	Demonstrations	Trade Journals	Other

3. The following are the reasons why we consider the media we have chosen to be the most effective:

4. Circle the words that best describe your product and/or service key attributes:

Buying Motive Buying Motive

Features	Rational	Benefits	Emotions
Performance	Economy of Purchase	Time saved	Pride of appearance
Reputation	Economy of Use	Reduced cost	Pride of ownership
Components	Efficient Profits	Prestige	Desire for prestige
Colors	Increased Profits	Bigger savings	Desire for
Sizes	Durability	Greater profits	recognition
Exclusive	Accurate Performance	Greater convenience	Desire to imitate
Uses	Labor-Saving	Uniform production	Desire for variety
Applications	Time-Saving	Uniform accuracy	Safety
Ruggedness	Simple construction	Continuous output	Fear
Delivery	Simple operation	Leadership	Desire to create
Service	Ease of repair	Increased sales	Desire
for security			
Price	Ease of installation	Economy of use	Convenience
Design	Space saving	Ease of use	Desire to be unique
Availability	Increased production	Reduced inventory	Curiosity
Installation	Thorough research	Low operating cost	
Promotion	Low maintenance	Simplicity	
Lab Tests		Reduced upkeep	
Terms		Reduced waste	
Well crafted		Long life	
Taste			

5. Price/Quality/Sales/ Matrix - Circle appropriate level.

Price	High	Medium	Low
Quality	High	Medium	Low
Sales	High	Medium	Low

IV. SWOT Analysis of Overall Market Position

Strengths	Weaknesses
Opportunities	Threats

IV. CONCLUSIONS

To strengthen the plan being developing, what should be changed or intensified? What additional research is needed to complete this plan? Write conclusions here.

VI. Strategic Planning

This is the short version of Strategic Planning. For the long version please refer to the stand alone workbook entitled “Strategic Planning.”

What is Strategic Planning?

Building Plan Assumptions

Performance Indicators

Tactics

Compartmentalizing Time

Benchmarking, Milestones, and Risk Analysis

Strategic Categories

Mastering the Strategic Process (Exercise)

Worse than not having sight is having no vision.

Helen Kelle

Strategic Planning Questions

Does your mission statement drive the direction of strategic planning?

What are the long-term goals of your organization?

What is long-term for your environment?

Can you measure the distance to your strategic goals?

What are your plan assumptions?

How are your tactics identified and implemented?

Can you identify the key performance indicators?

What are your strengths and how will they be used?

What are your weaknesses and how will they be overcome?

What are your strategic market opportunities?

What threatens the viability of your plan and your organization?

Can you manage and analyze your risks?

What are your key operational strategies?

When is the timeline developed?

Can you describe an overall strategy for your organization?

What is Strategic Planning?

Strategic planning is as much about thinking as it is about doing. Good strategy starts with a powerful commitment. However, it grows and changes with the conditions of the local and global environment. Business is changing worldwide at a startling pace. Political and economic transformations are occurring everywhere as countries convert from command to demand economies, dictatorships move toward democracy, and monarchies build new civil institutions. Paradigm shifts create economic opportunities undreamed of in the past.

Strategic planning is an advanced technology capable of constructing important contributions to the success of your organization. It is inherently long-term thinking; initiative thinking; and implementation thinking. Its synthesis is up to you—as leader.

Strategic initiatives could be related to sales, employment, product or service goals. The goals should be based on the development of strategies in the business plan, not on dreams or hopes. However, your strategic initiatives may be long-term goals that cannot be achieved within the period covered by the current plan. In other words, it could happen that your business plan covered a three or five year period, but your strategic plan reaches out ten years.

This section offers you the tools, but ultimately the task of setting strategy rests upon an organization's leadership.

Building Plan Assumption

To plan with confidence, one develops his or her perception or assumption based on fact finding, data gathering, and scenario building. Planning is inherently future-focused. A scenario of the future is a strategic tool defined by author Peter Schwartz as: 1) a tool for ordering one's perceptions about alternative future environments in which one's decisions might be played out or 2) a set of organized ways for us to dream effectively about our own future.

"Scenarios are not predictions," Schwartz insists. Instead, they are more like channels for helping people to expose a full environmental picture. By moving through a fact finding process to collect data pertinent to current situations one has the ability to act with a knowledgeable sense of risk and reward. The objective of a scenario is to see and feel its full impact. Of course, the end result is not an accurate picture of tomorrow, but rather a snapshot that helps you produce better decisions about the future. Scenario thinking is not charting the future. It is bigger and broader.

You cannot create scenarios from set formulas—but you can practice generating scenarios. People often convince themselves that their decisions are insignificant, because they feel powerless and hopeless to make the **best** decisions. To make effective decisions, you must articulate them. In order to articulate your decisions, you must first examine assumptions about your world.

Scenario-builders refine the focus on their world by asking questions which constantly move between the narrow and the broad. Examples:

Narrow

- Should we invest in new equipment?

- Should we expand the staff?
- Are services and/or products priced right?
- What internal investment do we need?
- How can the team work more effectively?

Broad

- What is going to happen globally that might affect my organization?
- Will consumer income rise?
- Would consumers or members spend more of their income on our services and/or product?
- How quickly could we expect to see new technologies? Will it affect us?
- What effect might other economies have on us?

The overall objective of successful scenario building is to give logical propositions for an organization to build plausible plan assumptions. Your task is to set key indicators into an orderly set of industry-specific consequences. From the scenarios you can then build operative strategic plans. Schwartz offers these eight steps to developing useful scenarios:

1. Identify focal issue or decision
2. Identify key forces in the local environment
3. Identify macro driving forces
4. Rank above factors by importance and uncertainty
5. Select scenario logics
6. Flesh out the scenarios in outline and/or skeleton forms
7. Define the implications
8. Select the leading indicators and signposts

Why is information-hunting and –gathering so important? Why move from the broad to the narrow topical areas? Why is flexibility of perspective so critical? It is because investigation is imperative to developing a well-honed strategic plan. Information is the foundation of a skillfully narrated scenario.

When you present yourself with a question you want answered or a strategy you want implemented, approach it from every side possible. Step outside your normal reading materials, your usual colleagues, and your typical methodology. You can ask questions like:

- If I were an environmental activist how would I approach this?
- If I were a teenager in the world today what would be my view?
- If I were a global economist what would I project?
- If I were a farmer how would this decision impact what I plant?
- If I were a computer designer what would I be looking for?

In general plan assumptions are the expected external conditions under which the company will execute the plan. List the conditions that are most important to your sector and the trends that you expect during the period covered by the plan.

Try hard to make good estimates; don't worry if your assumptions turn out not to be perfectly accurate. You are developing scenarios so that you will know when your plan needs to be revised. If you fail to list all your assumptions, you may miss an important external environmental

change, a demographic shift, a new market niche, etc. Plan assumptions fall into four basic categories:

Economy -- List economic conditions that are relevant to the company. These conditions may include overall economic growth, general inflation, specific price trends, wage rates, interest rates, and so on. Banks may be the best source; most of them make economic projections for major geographical areas and for the most important industries in their area.

Industry -- List industry trends. Include such projections as capacity growth, capacity status, new technologies, and changes in the company's competitive position.

Market -- List market trends. Include expected changes in demand for the company's product or service, changes in market distribution (by geographic area or by types of customers), changes in customer needs or wants, and competitors' actions in the marketplace (for example, aggressive pricing or the introduction of a new product or the launch of a new service).

Outside Influences -- Government or other regulatory proceedings are important outside influences. Outside influences may also include changing technology not directly related to the business. List these and anything else that is important to the company but that does not fit into the previous categories. Create your own list of outside influences below.

Plan Assumption Worksheet

Plan assumptions are the expected external conditions under which the company will execute its plan. List the conditions that are most important to the industry and the trends that you expect during the period covered by the plan.

The economic conditions relevant to the company include:

Industry trends are as follows:

Market trends are as follows:

Governmental/regulatory actions that affect us are:

Other outside influences are as follows:

Plan Assumptions and SWOT

Use SWOT again here to measure your plan assumptions. Apply SWOT to each of the strategic initiatives you plan to set into action. Don't implement more than three overall goals at a time. Remember, the technique is summarized as an acronym "SWOT" because it means strengths, weaknesses, opportunities, and threats.

SWOT Analysis Strategic Initiative #1

Strengths	Weaknesses
Opportunities	Threats

SWOT Analysis Strategic Initiative #2

Strengths	Weaknesses
-----------	------------

Opportunities	Threats

SWOT Analysis Strategic Initiative #3

Strengths	Weaknesses
Opportunities	Threats

Performance Indicators

Performance indicators are often called targets. Sometimes they are also called measures of success. They must be measurable in either a quantitative or qualitative manner or bi-modal as a combination of both measurements. If your targets are substantially or unreasonably raised, great pressure will be brought upon management to achieve unrealistic objectives. Performance indicators, in fact the entire strategic plan, should be SMART (see SMART slide).

Key performance indicators are both financial and non-financial in nature. Performance indicators are organizational measures that are used to track the company's progress toward achieving long-term and short-term goals.

Examples of financial indicators are:

- Profitability
- Sustainability
- Number of employees
- Flow of grants
- Number of members (for non-profit organizations)
- Number of customers (for profit companies)
- Net asset value
- Liquidity ratios
- Inventory turn-over

Examples of non-financial indicators are:

- Reputation
- Community acceptance of product or service
- Media relations
- Advocacy efforts
- Legislative changes enacted
- Contacts, networks, coalitions, etc.
- Image
- Coalition presence
- Media coverage

What are the primary financial performance indicators for your organization?

What are the primary non-financial performance indicators for your organization?

Performance Indicators as Danger Signals

Danger signals, also known as “red flags,” are problems that cannot be resolved in the process of completing the business plan. They are brutal facts of reality. Danger signals are items that you will need to examine vigilantly and repeatedly.

Danger signals have the potential to be resolved within the near future. Management can produce a clearer frame of reference by conducting market studies or product research or seeking advice from a business consultant or asking for recommendations from an accountant, attorney, banker, or other professional.

What danger signals exist within your current environment that you should carefully consider?

Tactics

Tactics are the art or science of maneuvering successful steps in business; the mode or procedure for gaining advantage; or the success of implementing a business plan or a business strategy. Lack of tactical planning is a serious strategic oversight. Tactics are also known as procedures or methods or devices that directly result in step-by-step plan implementation.

Some examples of tactics for a business strategy include:

- **Market Rationalization.** Tactic: cut back national sales effort to focus on a particular Oblast or expand sales force to capture new market.
- **Product Line Development.** Tactic: begin making multiconnect switches or set up new research and development department to expand product line.
- **Technology Focus.** Tactic: use unique gold connector on all switches.
- **Operations Capability Expansion.** Tactic: add second shift in plant.
- **Corrective Measure.** Tactic: generate self-sufficiency by collecting non-payments, get board approval for financial committee, or intensive membership drive.
- **Financial.** Tactic: create a cash flow analysis to analyze cash flow weaknesses; create differentiated price list for services.
- **Shareholder/Stakeholder.** Tactic: improve credibility and reputation in community with a charitable event.

Lobby Technique. Tactic: Increase roundtables to promote new policy paper, to gain public awareness, and to endorse legislative change.

The list above is merely a beginning. Tactics are an essential element to systematizing coherent strategic plans. By creating calculated conditions that enable integration and movement toward success, tactics integrate and enable a synergistic structure. Tactics are key to implementation. This is the area where most organizations fail.

Once you know what you want to achieve strategically, tactics can be put in place that corroborate your performance indicators.

What are the primary tactics for your organization?

One final reminder about selecting tactics. It's common for an organization to get stuck in selecting tactics. Usually the cause is not the substance of an issue, but rather it is the "how." A tactical approach offers "how" solutions. Your approach in the design of procedures must be clearly formulated. For example, as based on Gadiesh and Olivet's views in The Organization of the Future, remember that you must:

- Designate the key tactics needed to execute a strategy in a measurable way.
- Identify the critical issues, data, and analyses required.
- Enumerate the roles, responsibilities, and accountabilities of each individual and/or group involved.
- Describe the process and timing by which the necessary people and information will all come together.

Compartmentalizing Time

Trapped between past and present, we spend 50% our time agonizing that the long term we desire won't manifest and the other 50% dreading that we are missing something in the present. As F. Scott Fitzgerald said, "The test of a first-rate intelligence is the ability to hold two-opposed ideas in the mind at the same time and still retain the ability to function." Occupied with past and present, we pay little attention to the future. This is precisely why compartmentalizing time and creating a timeframe is essential to the success of a strategic plan.

A timeline focuses the concept of compartmentalizing time by scheduling time to think and to achieve. A timeline can be weekly, monthly, quarterly, or annually. It is a visual graphic of what you want to achieve and when you want to complete particular tasks, tactics, and performance indicators.

List all the activities that prevent you from achieving strategic planning

Benchmarking, Milestones, and Risk Analysis

Definition: a literal definition of benchmarking is a mark cut into durable material like stone; in a business sense benchmarking is objective external comparison and analysis. It is a tool for obtaining the information needed to support constant development and to gain a competitive advantage. McNair and Leibfried define benchmarking as “an external focus on internal activities, functions, or operations in order to achieve continuous improvement.”

In non-governmental organizations, like business associations, benchmarking is relative to applying domestic and international “best practices.”

Benchmarking is a lot like scientific research. For the benchmarking process to be successful, an organization must develop a set of defined objectives and rules for collecting and analyzing data about itself as compared to its competitors. The benchmarking implementation sequence moves through four phases:

- Phase I: Internal data gathering and assessment of existing practices
- Phase II: External data gathering of competitor practices or of best practices in the industry
- Phase III: Analysis of benchmarking information; the sifting of models, performance gaps, and prioritization
- Phase IV: Implementing an action plan to promote continuous improvement, mastering best practices, and adding measurements that track improvements

Four phases represent a structured company learning process that provides clear, objective data on the company’s comparative performance against its competitors. Substantial data gathering was conducted earlier; however, the processes had an outwardly or external focus. Benchmarking now turns your focus inward by comparing your organization’s strengths, weaknesses, opportunities, and threats to those of your competitors.

Milestones

The month-by-month milestones should show such activities such as product development, market development calendar, personnel hiring (and/or firing), the purchase of new equipment, and related operational elements. Use the Milestone Schedule blocked out in a month-by-month sequence to provide a timetable capable of meeting critical deadlines and essential activities. For example, milestones might include:

Completion of the prototype	Grants writing
Sales representative agreement	Demographic studies
Distributor and dealer agreement	Personnel evaluations
Placement of material orders	Trade show displays
Receipt of first orders	Media campaign
First sales and deliveries	Preparation of policy papers
Production of training manuals	Launching new services
Receipt of first accounts receivable	Web site development
Revision of financial systems	
Technological research and development	
. . . and so on; the list can be endless.	

What Milestones would you add to the above list?

Risk Analysis

Before selecting final strategies, identify areas in which risks should or could be minimized. Risks are in all areas of a business, but SMEs and non-profit organizations are most vulnerable to financial risk and non-sustainability. Risks are conditions or exposure to loss or contact with hazards that may prevent a company from achieving its long-term objectives. Challenges include: under-capitalization, inefficient collection practices, reliance on one source of income, and insufficient capital reserves to cover emergencies.

Use the chart below to identify your most significant risks. Indicate your company's level of risk associated with each risk element. Mark an X to indicate low, medium, or high risk. The overall level of risk is assigned to the column in which most of the elements fall.

- **Product/Service line strategies.** Product and/or service line strategies are actions taken related to the composition and positioning of its product/service lines. The key concept is the specific product line(s). A product line is a family of related products or a family of related services.
- **Technology strategies.** Technology strategies comprise with the company's emphasis on technology as a major competitive factor. The key idea is that every industrial sector, including the non-governmental sector, has technology related issues, in some form, as related to its processes, equipment, products, services, or personnel.
- **Operations strategies.** Operations strategies are actions to perform the actual functions related to production of goods or performance of a service. The focal point is on capacity, processes, quality control, human resources, raw materials, and all other elements connected to operations.
- **Correction strategies.** Correction strategies are remedial steps a company undertakes when it finds itself in financial or competitive trouble. The objective is to reduce risk and exposure until decisions can be made about the organization's future. Correction is not a long-term option; rather it must lead to a solution of either 1) fixing the problems or 2) closing the company.
- **Financial strategies.** Financial strategies are the most common short and long-term strategies. Financial actions are results that provide capital for ongoing operations and growth. Capital may take two forms, 1) equity or 2) business debt in the form of loans or credits. In the case of non-profit organizations capital may be increased by membership or grant revenues. Key elements are sustainability, non-dependence on a single income source, and capitalization for growth.
- **Human Resource (HR) strategies.** Human resources are the primary capital of an organization. This strategy relates to executives, managers, staff, and line personnel, and includes policies for shrinkage, growth, skills transference, training, succession, etc.
- **Shareholder and/or Stakeholder strategies.** Every organization must meet the expectation of its constituents. This strategy comprises actions that represent good governance, transparency, and accountability.
- **Lobbying strategies.** Lobbying strategies are measures to effect legislative change, to influence decision-making that impede ongoing business, and to create a system of support for your organization's ideals. Strategies include media relations, public/community relations, campaigns, coalition building, broadening networks, targeting new audiences, policy papers, research, and accessing communication channels.

Mastering the Strategic Process

Here's where we pull all the strategic issues covered in this seminar together. With this "Mastery" exercise you'll revisit:

- Values, vision, and mission
- Plan assumptions
- Performance indicators
- Tactics
- Timing
- Benchmarking, milestones, and risk analysis

Exercise 11 Mastering Strategic Planning

Objectives	To introduce a powerful illustrative model To define strategic planning and master strategic processes
Time	30-45 minutes
Needs	Flipchart and Colored markers Overhead projector Transparencies and Transparency markers
Process	<ol style="list-style-type: none"> 1. Assign participants to teams of no more than 4 per team 2. Participant team tasks are: <ol style="list-style-type: none"> a. Write concisely your mission statement b. Define 3 specific strategies for one organization c. Indicate the tactics to achieve the strategies d. List performance indicators for each strategy e. Give time measurements 3. Exercise outcomes expected from the teams are: <ol style="list-style-type: none"> a. Timeline b. Diagram outlining the tasks above 4. Instructions <ol style="list-style-type: none"> a. Team should self-select one member b. Use only one organization as a case study c. All team members give input as "expert consultants" d. Final scheme should pictorially incorporate all strategic elements e. Spokesperson to debrief strategic points - 5 min.
Debriefing	Select spokesperson. Use the graphics created as a visual and augment with a verbal description of the exercise conclusion. Hold presentation to 5 minutes per team.
Variation	Prefer not to vary this exercise

Mastering the Strategic Process

List which business strategies the organization is currently pursuing. List which strategies the company might want to pursue in the future. Finally, indicate briefly how you might implement the future strategies. Conserve your energy and resources. Focus on only **three** strategic initiatives.

List your strategies the company is currently pursuing.

List which strategies the company might pursue in the future.

List briefly how you might implement the future strategies.

What other resources are required for successful implementation of your strategic plan?

Definition for *Kaizen*, a Japanese word that has no exact equivalent.

Kaizen basically means continuous, incremental improvement. *Kaizen* strategy is the single most important concept in Japanese management and is the key to Japanese competitiveness. In Japanese business, the concept of *Kaizen* is so deeply ingrained in the minds of both managers and workers that they often do not even realize that they are thinking *Kaizen* ... as quoted in Rothschild's book Bionomics on page 197.

VII. Strategy Concepts

Company Thrusts

General Business Strategies

- A. Market**
- B. Technology**
- C. Operations**
- D. Correction**
- F. Financial**

Adventure is worthwhile itself.

Amelia Earhart, Aviatrix

Strategy Concepts

Selecting, focusing, and implementing the ideal strategies for your company is truly an adventure. Now you are ready to develop a rich, comprehensive strategic plan. The strategy plan plays a vital role in your master business plan. The ideas comprised in this section were developed by Richard L. Leza and Jose F. Placencia, authors of the book Develop Your Business Plan. Leza and Placencia give a plethora of ideas for a variety of strategic initiatives. Practice with the following concepts to devise long-term objectives specifically suited to your growth goals.

Company Thrusts Description

Revisit the concept of “thrust.” In choosing the company thrust, it is important to keep in mind the life cycle stage of the industry in which the company competes (refer to the Industry Analysis section). The following pages provide examples of thrusts that companies, operating within certain industries at a given industry life cycle, might choose. Note the “Company Trust Definitions” chart.

You already inherently know your company thrust. Consider how the thrust will change as to move into different areas of growth. For example, if the objective is to capture a larger share of the market in a growth industry, the company must be willing to accept lower returns in the short term, commit large amounts of resources to wage the market battle, and assume a high degree of risk. However, if successful, the results will be a greater market share, above industry average returns in the long term, and a very strong competitive position.

Samples of various company thrusts are provided in the following pages. Keep in mind that the samples provided represent just one scenario that a typical company may choose within a specific life cycle of the industry. Moreover, a company could choose two or more thrust objectives at the same time as part of an overall strategy.

Exercise 12 Company Thrust Definitions Chart

Thrust	Define	Objective	Requirements	Expected Results	Risks	Typical Strategies
Start-up						
Growing with Industry						
Fast Growth						
Creation of Niche						
Differentiate						
Renew						
Suspended ("Hang In")						
Retrench						
Correction						
Operations Improvement						
Quality Adjustment						
Other Thrusts:						

General Business Strategies

A. Market

Market Position Improvement

The focus is on improving an existing market position for new products, services, or niches. The objective is to increase market share either by taking customers away from competitors or by capturing a larger share of market growth. Tactics entail significant spending on marketing practices and activities. They may include improving the product or service by restyling, repackaging, repositioning the product or service, pricing aggressively, or mounting a major advertising campaign. For example:

- A supermarket advertises low prices, issues discount coupons in local newspapers, and sets and promotes extremely low sale prices for a few items in order to attract customers.

The spotlight is on expanding the number or scope of markets for an existing product or service. The objective is to increase the size of the market. Sometimes exporting is used to offset a declining domestic market. Exporting is generally an option for manufacturers. There are export opportunities in some service businesses (banking, hotel management, insurance) and in construction, but these opportunities are generally available only to the largest firms in the industry. Export opportunities exist in wholesale and retail trade through mail order operations utilizing just-in-time inventory control. This is particularly true for companies with a unique product or a special image.

Tactics include acquisition or setting up a plant, store, or service outlet in another country. These tactics are almost always reserved for larger companies such as Sears, IBM, Walmart, McDonald's, and so on.

The actual acquisition of another company is rarely an option available to small businesses, although occasionally, a retailer may purchase a competitor and use the location and inventory to expand its own business.

However, joint venture and subcontract arrangements are frequently used by small businesses in such industries as construction and consulting, when the small business may bring added manpower and/or special skills to a larger firm, or a consortium of small businesses may join to win contracts that none of them could undertake alone.

Focusing Marketing

The objective is to focus marketing effort on the most profitable, or potentially profitable, markets or segments in order to earn a higher return on marketing revenue. Tactics include concentrating on high margin or high-volume markets, using the highest-volume distributors; limiting the customers served through minimum-volume requirements or a volume-based price structure. For example:

- A clothing manufacturer sets a minimum order of 1,000 wool shirts. In addition, it structures prices so as to make orders of less than 3,000 units very unattractive on a unit cost basis. As a result, small clothing stores are effectively shut out.
- A construction firm decides to stop bidding on government work and to concentrate on the commercial-industrial market because it obtains lower margins on government jobs and finds the bidding process cumbersome and expensive.
- It is common in the travel industry for tour operators to set up special incentive programs that pay higher commissions to the travel agencies that generate significant volume. Agencies that sell only one or two packages a year receive a much smaller commission.

Accreditation Mechanisms

This strategy is adopted by small businesses that develop a new idea but do not have and cannot raise the capital they need to bring it to market. The issues here are related to intellectual property rights.

The objective is to reduce capital requirements (and associated risks), as well as to realize additional earnings. Tactics include licensing product formulas to other companies, selling rights to the use of the brand name, selling process know-how, and combining all of the foregoing tactics in a franchise operation. Other accreditation mechanisms are: certification, trademark, and copyright. For example:

- License - A construction and engineering firm licenses the design it has developed for a passive solar house.
- Franchise - A fast-food outlet sells a franchise based on its name, menu concept, and decor.
- Certification – A training company trains new trainers to deliver specific materials which enables the new trainers to deliver the technology.
- Trademark name - A national car rental company sells individual local agencies the right to use its name. It backs the licensees with national advertising, a computerized database and then finances the purchase of the licensees and fleet of cars.
- Copyright - A software company copyrights its accounting package and sells it as a retail product.

B. Product and/or Service Line Strategies

Product Line Improvement

The objective is to keep up with the pace of the industry as a whole with respect to the features, styles, and quality of products or services. Tactics include major or minor redesign, incorporation of new technology, repackaging, and normal replacement. For example:

- During the 1970s, innumerable products were rejuvenated by substituting electronic components for mechanical or electromechanical components. Among these products were adding machines (replaced by calculators, often hand-held), watches, office machines (electronic typewriters), and telephone switching equipment.
- After the fluorocarbon scare of the late 1970's, most manufacturers of health and beauty aids repackaged their products in non-aerosol spray forms.
- Banks and savings institutions were given the option of offering interest-bearing checking accounts at the beginning of 1981. This immediately became the standard for the industry.

Product Line Development

The objective is to increase revenues by selling new products, selling old products with new features, broadening the range of new products and finding new uses for existing products. Tactics include introduction selling of the concept of, or the need for, the new product; extensive promotion of the new product, often accompanied by introductory prices and trial samples; filling gaps in the existing product line (adding sizes, styles or varieties); acquiring a company with a complementary product line; and contracting for the supply of a complementary product line from a domestic or foreign source to be sold under the company's name. For example:

- A manufacturer of traditional toys and games adds a line of electronic products aimed at the adult market.
- A construction contractor whose business is residential and commercial painting and wallpapering adds staff to perform tile, carpet, and hardwood floor installation so that it can provide a complete interior finishing service.
- Retailers contract for many kinds of merchandise (appliances, food products, apparel) that can be sold under the store's name (or other private label), usually in order to offer a low or moderately priced product.

Product Line Focusing

The objective is to focus the company's efforts and resources on the most profitable products and services. Tactics include product line and packaging standardization, product repositioning, and selective abandonment of unprofitable or marginal products. For example:

- Auto manufacturers are redesigning their models to use standardized parts to reduce inventories and provide more flexibility to change the mix of products offered.
- An electrical contractor with a broad range of services might choose to abandon residential repair services and concentrate on major new construction and rehabilitation jobs. His reasoning might be that a low volume of high-priced residential service work did not justify the additional paperwork and scheduling problems it created.
- A small suburban paint and wallpaper store might choose to stop carrying certain wallpaper patterns that sold poorly.

C. Technology Strategies

Technology Focus

This strategy emphasizes exploiting or acquiring new technology or ensuring that the company keeps up with the pace of technologies currently used in the industry.

Depending on the business, the objective is to establish an image as a leader or a specialist in order to support market or operations strategies. Tactics include investment in basic research, monitoring relevant emerging technologies in the industry and in other industries, investigating new applications for the company's main technologies, and purchasing patent rights and licenses. For example:

- Tandy Computers built its company on systems that incorporate duplicate processors. These processors are intended for users who cannot afford to have their computers malfunction.
- McDonald's achieved its early success by taking advantage of systems which permitted precision food preparation. This enabled McDonald's to provide rapid service and a consistent product in all of its outlets.
- Federal Express was following a strategy of technology focus when it established a small-package delivery service based on its own fleet of planes and a central sorting and distribution operation.

D. Operations Strategies

Operations Capability Expansion

The objective is to increase output and revenues derived from the company's existing physical and staff resources, or to increase the resources available to meet demand. Tactics include investing in additional facilities, equipment, and inventories beyond normal replacement needs; changing in physical or operating systems to eliminate bottlenecks; improving processes and procedures; and hiring additional employees. For example:

- Manufacturers routinely build or buy new plants, add production lines to existing plants, and add second shifts in plants that previously supported a single shift. The electronics industry has been doing this for years, although economic conditions slowed its expansion somewhat in 1982. Many manufacturers have shifted some or all of their capacity overseas to take advantage of cheap foreign labor.
- Construction contractors often employ a permanent staff of craftsmen to handle the normal workload and hire additional workers to meet increased demand on specific projects.

Operations Capability Reduction

The objective is usually to respond to a decrease in current or expected future demand caused by market saturation or the introduction of substitute products or services. In some cases, this strategy may be used to improve the economics of the business by reducing size while increasing efficiency and profits.

Tactics include reducing shift operations or operating hours; laying off employees; reducing plant throughput or inventories; closing obsolete, inefficient, or excess facilities; relocating operations to take advantage of lower costs or workers with higher skills; and improving productivity through investment in new machinery, automation, or staff training.

For example:

- Several Silicon Valley (USA) electronics firms are relocating manufacturing operations to Texas, Colorado, Mexico, and other areas where assembly line workers are available at lower wages. Many of the most labor intensive assembly operations are being moved overseas.
- A growing construction company might decide to contract out operations that were not critical to the management of its growth, payroll, bookkeeping, and similar support services-leaving more time for its management to focus on bids and project management.
- A retailer with several outlets might close one or more stores and consolidate its inventory in the remaining, most profitable outlets.

Operations Improvement

The objective is to lower costs or improve efficiency by altering the company's basic operating technology or its procedures or both. Tactics include automating production lines, plants or

functions and installing computer-based control, planning, and forecasting systems. A small business might pursue a modified form of the latter tactic by installing its first structured systems without computerization. For example:

- A large construction company might adopt a computerized project control system to provide work scheduling, procurement requirements, and performance-versus-plan reports. A small construction company might achieve the same results by drawing up task lists and work flow-charts. The elements of project control are essentially the same for both companies. The large company, however, needs the computer because it must handle much more information.
- A food processor installs a microprocessor-based control system that controls the manufacturing operations by measuring temperatures and other key variables and moving production to the next stage. This system ensures a uniform quality, reduces waste, and conserves energy.
- A retail store installs cash registers with scanning equipment that reads the price and the stock number of each item. This allows the stores computer to update inventory on a daily basis.

Quality Adjustment

The objective is to support a marketing program -- generally, either to upgrade quality in order to build an image of a top-of-the-line product or service or else maintain the company's share of the market. Tactics include redesigning the product or service;-changing equipment, procedures, or personnel skill levels to achieve the desired level of quality; using different materials for parts or total products; and installing quality assurance and training programs. For example:

- U.S. automakers are attempting to upgrade the quality of product fit and finish in response to competition with Japanese imports.
- Construction companies are paying more attention to details related to energy consumption by increasing insulation, improving the fit of doors and windows, and so forth.

Distribution Improvement

The objective is to increase earnings and effectiveness by providing better or more rapid distribution at lower costs. Tactics include limiting the number of distribution outlets, identifying the most efficient transportation options, setting up retail outlets (for manufactured products), and

adding downstream manufacturing capacity to ensure a market for raw materials products. For example:

- Some companies create company owned retail outlets for their manufactured goods; for instance, some large publishers create their own retail store. A more common approach for small businesses is exemplified by a furniture manufacturer who opens a factory outlet.
- A supermarket chain establishes a single central packaged goods warehouse to receive deliveries from manufacturers, repack items to meet the needs of individual stores, and make deliveries at times when store clerks are available to handle them.

Human Resources Enhancement

The objective is to improve the organizational structure, increase worker productivity, and decrease employee dissatisfaction and turnover. Tactics include investing in procedures, training, and equipment; improving physical working conditions in plants, stores, and offices; investing in job enrichment programs; establishing innovative work schedules (job sharing, flexible hours); changing managerial structure or systems; and realigning information and control systems.

E. Correction Strategies

Hesitation

The objective is to put off a decision about the company's future for a relatively short time (usually no more than a year) until some specific problem can be solved. A company that chooses this strategy must also identify the reason for choosing it (for example, to wait for interest rates to come down). Tactics include postponing investment pending the completion of feasibility studies, changes in the market situation, or other developments; scaling back or stretching out investment; imposing a hiring freeze on all but critical replacements; and scaling back inventory purchasing to minimum replacement levels.

General Cost Cutting

The objective is simply to cut costs. General cost cutting differs from other cost cutting strategies because it is usually an emergency measure applied arbitrarily. Tactics include selective or across-the-board overhead cost reductions such as salary cuts, travel budget cuts, or postponement of scheduled wage increases; reduction or elimination of certain staff functions; and reduction of inventories to cut carrying costs. The only areas of the company that should be spared from general cost cutting are those which clearly and directly generate revenues that exceed their costs.

F. Financial Strategies

Financial Mix Adjustment

The objective is to modify the company's risk. The higher the leverage (debt to equity ratio), the higher the risk. Increased leverage usually increases the return on equity and the company's

ability to grow. Tactics include investing more of the owner's personal funds, seeking investments from private venture capitalists, and seeking investments from Small Business Investment Companies (SBICs). Debt is increased long- or short-term loans, selling receivables, and taking advantage of available government loan guarantee programs.

External Financing

The objective is to increase investment to speed business growth. Tactics include reinvesting all or a large part of the company's earnings and securing the maximum debt available, while at the same time mounting a debt structure that will not drain cash flow from other critical areas of the business. External financing for for-profit companies can come in the form of debt or equity; however, for NGOs it usually comes in the form of fundraisers, sponsorships, and grants.

Selling Stock

This strategy has been extremely successful for companies with attractive, high-technology products. Other small companies whose products and services do not capture the public's imagination will have much less success with it. Therefore, this strategy is workable only for a limited number of businesses. The objective is to raise equity capital beyond what might be available for a privately held company.

Selling the Company

The objective is to raise capital for growth beyond the resources of the small business. This strategy may also be pursued by an entrepreneur who no longer wants to run the company. Seeking a buyer may serve the same purpose as going public for those companies for which the latter option is not available.

However, if the company needs a quick infusion of capital to finance a new project or product, this strategy would not be appropriate because it takes too long to identify and work out a satisfactory arrangement.

VIII. Manufacturing Plan

Charter, Overview, and Major Tasks

Product

Budget

Personnel

Organization

Operations Plan/Operations Capacity

Scheduling

Other Items to Include

Far and away, the best prize that life offers is the chance
to work hard at work worth doing.
Theodore Roosevelt

Manufacturing Questions

What research and development has been attained?

Can you describe your production and manufacturing operational flow?

How are decisions made to manufacture a part or buy a part?

What are your quality standards and measurements?

How much personnel and labor is required?

What are your facility needs?

Does the company own or lease its facilities?

What is the current physical condition of these buildings?

What is the current physical condition of your equipment?

What major equipment is necessary for the production process?

What additional property and equipment will be necessary to fulfill the objectives of the business plan?

Are your packaging and transportation requirements fully met?

Who are your suppliers?

What raw materials are required?

How many suppliers does the company use?

Where are your suppliers located? Do you purchase from abroad? How much?

Do you purchase domestically? How much?

Do you have problems getting supplies?

What is production capacity? Is this sufficient for the future?

What ecological problems exist?

Is technology and equipment adequate and up-to-date?

Do you have all licenses for manufacturing operations?

Do you have all permits for new equipment

Do you have all permits and/or licenses to import or export?

Are you in compliance with all regulatory agencies?

Do you have certification for specialized raw materials?

Describe how energy costs impact manufacturing operations.

What impact does seasonality have on operations?

Prepare a description of multiple locations including manufacturing, storage, inventory, off-site operations, packaging, shipping, etc.

Do you have a safety plan?

What quality control measure are in place?

Charter

The charter of the manufacturing department is to produce the company's products, and to schedule processing, at or below target costs, with acceptable quality levels. Include a copy of the charter in this section.

Overview

The above charter is implemented by establishing facilities, hiring the necessary personnel, assembling raw materials, and testing the finished products. In the manufacturing process if there are no plans to fabricate any of the required parts, then all parts can be purchased from external sources.

Major Tasks

Most of the activities falling under the manufacturing department's responsibility will be standard functions that will be carried out in a straightforward manner. There are, however, a number of areas that are critical to the operation and that will consequently receive particular attention. These areas are outlined in the following section.

Product Development

Material Costs: Material Costs are approximately 3 percent of the total cost of sales. Indicate calculations here.

Quality Control The quality of the unit is an all-important factor. Indicate primary total quality control factors here.

Budget

The manufacturing department budget is based on a small group of people who are experienced in manufacturing and who are expected to expend exceptional amounts of time and effort to the success of the operation. Calculate a manufacturing department budget and include it in this section.

Organization of the Manufacturing Department

Organizational elements shown hereafter represents the initial start-up of a manufacturing department. Human resources are a critical element of manufacturing success.

Personnel

The labor estimates shown below should be based on a planned output schedule and should take into consideration of all necessary learning and training elements. It is expected that most of the indirect and start-up personnel will be recruited from the industry. Include your output schedule as an addendum to this section. A suggested list of the types of personnel a manufacturing department needs follows:

Manufacturing Manager

Function: Responsible for all manufacturing and production activities, including functional operations of each department.

Material Control Supervisor

Function: Responsible for direction and coordination of production planning activities.

Duties: Develop the master sales schedule based on approved marketing forecast.
Establish and maintain material and finished-product inventory levels.

Material Planning Officer

Duties: Coordinate dispatching of production orders and material supply requisitions with data processing records and buy cards. Forward buy cards to purchasing.

Purchasing Supervisor

- Function: Supervise purchasing personnel. Monitor performance of outside contractors. Survey new vendors and make periodic surveys of existing vendors.
- Duties: Supervise and coordinate all operations and procurement within assigned commodity areas. Maintain and improve existing methods; develop and recommend new concepts to increase efficiency.

Purchasing Expediter

- Function: Coordinate and expedite shipment and delivery of materials.
- Duties: Contact vendors by telephone to insure that materials and supplies are shipped and delivered on promised dates. Determine when deliveries may be delayed; coordinate with Purchasing and Manufacturing to expedite material requirements. Maintain records of purchases, received goods, returns of damaged items.

Clerk Typist

- Duties: Type purchase requisitions, mail out confirmation copies to vendors, maintain file on closed purchase orders.

Production Control Supervisor

- Function: Responsible for scheduling and monitoring the movement of material through production processes. Supervise material expediter.
- Duties: Monitor and schedule the movement of material. Subsidiary duties include determination of priority sequences, tracking line shortages, establishing ship dates. Maintain all proper documentation on outbound shipments. Generate management reports on production, shipping, sales order, and assembly status. Provide coverage for material review board activities.

Expediter

- Function: Coordinate and expedite flow of material, kits parts, and assemblies within or between departments per production and shipping schedules.
- Duties: Monitor receipt of materials, anticipate shortages, and alert purchasing department of priority requirements. Expedite materials for critical-path shortage items. Coordinate the flow of final assemblies through inspection, assembly, testing. Prepare shortage reports as necessary. Forward completed work orders to data processing personnel.

Receiving Clerk

- Function: Perform manual and clerical duties involved in receiving material, supplies, and equipment.
- Duties: Unpack and examine items received and verify completeness against bills of lading, invoices. Keep records of goods received. Reject damaged material and process necessary paperwork. Process necessary paperwork for sending material to receiving inspection.

Stores Supervisor

Function: Responsible for receipt, storage, and issue of material to support manufacturing activities. Supervise shipping, receiving, and stock clerks.

Duties: Maintain accountability for material from receipt until disposition. Conduct required inventories and maintain inventory accuracy. Receive materials and stocks in accordance with warehousing techniques. Prepare kit materials pursuant to schedule. Establish backorders for material shortages and maintains files for same. Forward kit material and filled back-order lists to data processing.

Shipping Assistant

Function: Perform manual and clerical duties involved in the preparation of material and supplies for shipment.

Duties: Implement standard policies in preparing items for shipment. Verify and count material to be shipped. Prepare shipping instructions using standard shipping practices for transportation type and routes. Prepare bills of lading and other records pertinent to material being shipped.

ORT Processor (Operations Routing Traveler)

Duties: Prepare ORT file along with a copy of the sales order. This file is made available for configuration instructions, inspection, shipping, and production control files.

Quality Control Section Manager

Functions: Responsible for ensuring that the quality of workmanship meets the standards set by the product assurance department and that products manufactured adhere to engineering specifications. Responsible for reporting quality problems on a timely basis.

Duties: Oversee all inspection activities, including receiving, in-process, final, shipping, and source inspection operations. Develop and improve quality control inspection methods and techniques. Provide for effective feedback of line rejects to receiving inspection. Control inspection budgets. Provide interface with Operations, Engineering, and Purchasing to meet production goals with minimum quality problems.

Inspection Supervisor

Function: Supervise receiving inspection personnel. Ensure that parts/materials are manufactured in accordance with specifications and workmanship standards.

Duties: Supervise inspection activities by scheduling work and assisting personnel on special quality problems. Establish in-process checks necessary to produce quality units. Report quality problems to Quality and Reliability Engineering. Ensure that proper inspection techniques are applied. Review quality and special engineering documentation.

Receiving Inspector

- Function: Inspect purchased parts and materials for conformity to specification and workmanship standards.
- Duties: Inspect parts and materials for proper identity and dimensions, using such measuring devices as micrometers, gauges, calipers, and component testers. Visually inspect for obvious defects, verify specification using Purchase Orders, blueprints, and checklists. Maintain records of accepted and rejected items. Place accepted material in a specific location to be forwarded to stores.

Manufacturing Engineer

- Function: Translate completed product design into the facilities, tooling, processing, and documentation required to implement and support manufacturing.
- Duties: Develop manufacturing procedures and establish production processes. Evaluate existing methods and devise improvements for increased efficiency and cost reduction. Perform project management of new product introduction into production phase by preparing manufacturing plans and facilities layouts and by participating in design reviews. Select manufacturing tooling and justify capital equipment. Investigate manufacturing and process problems. Write procedure reports as required.

SCHEDULING

A thorough knowledge of scheduling systems is essential in order to achieve a competitive position. A stable work force is a major goal of the aggregate planning process because of the added costs of erratic variations in the work force. Even minor changes, such as job transfer multiply to many changes in a highly skilled and labor intensive environment. There are many methods to maintain the delicate balance between short-term flexibility, necessary to meet changing market demands, and long-term production planning, necessary to keep costs competitive. The effective use of suitable management tools for labor planning help to temper the impact of short-term and long-term change.

Imagine yourself in charge of a large facility that houses many types of equipment and people. How should you use these potentially productive resources during the next six months, one year, or even longer? Your answer to this question will directly affect the success of your organization. One source of guidance is provided through operations planning and scheduling systems.

OPERATIONS PLAN

Operations planning and scheduling systems concern the volume and timing of outputs (units), the utilization of operations capacity, and balancing outputs with capacity at desired levels for competitive effectiveness. These systems must fit together activities at various levels, from top to bottom, in support of one another. The planning focus is on aggregate production, capacity plan, and full step-by-step distribution of every production scheduling detail. Let's begin with an overview of the entire system.

OVERVIEW OF THE OPERATIONS SCHEDULING/PLANNING SYSTEM

The business plan is a statement of the organization's overall level of business activity for the coming 6 to 18 months. Developed at the top executive level, the plan is based on forecasts of general economic conditions and anticipated level of business activity for the said period. Based on conditions of the industry and competitive considerations, the plan reflects the company's strategy for competing during said period. The plan is usually expressed in terms of outputs (in

monetary volume of sales), quarterly or monthly, for each broad product group but not for the specific items or individual products within each of its various product groups. The plan also may specify the overall inventory and backlog levels that will be maintained during the planning period.

The business plan, in a sense, is an agreement between all functional areas: finance, production, marketing, engineering, research and development, logistics, and sales.

The business plan is not concerned with all the products that share or consume common resources, or the specific timing of the actions for executing the plan. Instead, it determines a sense of capacity in the feasible general posture for competing to achieve its major goals. The resulting plan guides the lower management levels to more detailed decisions for the manufacturing process.

Add definitions specific to your industry or company for your scheduling here:

SCHEDULING DEFINITIONS

Aggregate output planning: The process of determining output levels (units) of product groups over the coming 6 to 18 months on a weekly, monthly, quarterly, and annual basis; the plan identifies the overall level of outputs in support of the business plan.

Aggregate capacity planning: The process of testing the feasibility of aggregate output plans and evaluating overall capacity utilization.

Aggregate Production (Output) Planning: This plan is the production portion of the business plan and addresses the demand side of the firm's activities by showing the number of units of its product groups or families of outputs it will produce, expressed in number.

Since various product groups may be produced at diverse plants, facilities, or divisions, each of them needs its own production plan. The division's aggregate output plan covers the coming 6 to 18 months on a weekly or monthly basis.

Planning at this level ignores such details as how many of each individual product, style, color option, or model to produce. The plan recognizes the division's existing fixed capacity and the company's overall policies for maintaining inventories and backlogs, employment stability, and subcontracting.

Specific to your company for your scheduling what is your aggregate production (output) plan?

Aggregate Capacity Planning: A statement of desired output is useful only if it is feasible. This is the role of aggregate capacity planning -- to keep capacity utilization at desired levels and to test the feasibility of planned output against existing capacity.

Thus it addresses the supply side of the firm's ability to meet the demand. As for aggregate output plans, each plant, facility, or division requires its own aggregate capacity plan. Capacity and output must be in balance.

A capacity plan translates an output plan into input terms, approximating how much of the division's capacity will be consumed. A product group, for example, usually consumes predictable amounts of capacity such as labor hours of assembly or machine hours for fabrication.

Although these basic capacities are fixed, management can manipulate the short-term capacities by the ways they deploy their work force, by subcontracting, or by using multiple work shifts to adjust the timing of overall outputs.

As a result, the aggregate planning process balances output levels, capacity constraints, and temporary capacity adjustments to meet demand and utilize capacity at desired levels during the coming months. The resulting plan sets limits on the master production schedule.

Master Production Scheduling _____ (MPS): The purpose of master production scheduling (MPS) is to meet the demand for output in the product group. This schedule shows a week or more of

detailed level planning for individual product lines, the flow of how many of each product must be produced, and indicates when they are to be produced.

The MPS is an important link between marketing and production. It shows when incoming sales orders can be scheduled into production as customer orders, and when each shipment can be scheduled for delivery.

It demands forecasts. The MPS also takes into account current backlogs so that production and delivery schedules are realistic.

Rough-Cut Capacity Planning: The process of Rough-Cut Capacity Planning (sometimes called resource requirements planning) is done in conjunction with the tentative master production schedule as a tool for testing the feasibility of production schedule in terms of capacity before the MPS is finally settled.

This step ensures that a proposed MPS does not inadvertently overload any key capacity, department, work center, or machine, making the MPS unworkable.

Although the check can apply to all work centers, it is typically applied only to the critical ones that are most likely to be bottlenecks. It is a quick and inexpensive way to find and correct gross discrepancies between the capacity requirements (in direct labor hours, for example) of the MPS and available capacity.

Material Requirements Planning: The MPS is the driving force for material requirements planning. The MRP shows the time-phased requirements for releasing materials and receiving materials that enable the master schedule to be implemented.

Capacity Plan (also called the Detailed Capacity Plan): This plan is a companion process used with MRP to identify in detail the capacity required to execute the MRP. At this level, more accurate comparisons of available and needed capacity for scheduled work loads are possible. Detailed capacity is for individual product lines or groups.

Shop Floor Control Planning: Activities that execute the weekly and daily activities of loading; sequencing, detailed scheduling, and other such jobs done at the floor level. Individual jobs are assigned to machines and work centers, expediting jobs in their proper sequences, processing the jobs for priority control is determined, start times and job assignments for each stage of processing are decided (detailed scheduling).

CONCEPT OF AGGREGATION

To develop an aggregate plan, managers must first identify a meaningful measure of output. This presents no problem for organizations with a single product because their outputs are measured directly by the number of units they produce. Most organizations however, have several products, and a common denominator for measuring total output may not be so easy to find. A brewery manager, for example, can plan capacity in terms of gallons of beer produced, temporarily ignoring how that capacity will be distributed among various types of beer and packaging. A steel producer can plan in terms of tons of steel, and a paint producer, gallons of paint. Service organizations such as urban transit systems may use passenger miles as a common measure, health care facilities may use patient visits, and educational institutions may use faculty-to-student contact hours as a reasonable measure.

A meaningful measure can usually be found by identifying groups or families of individual products that, although different from one another, share common production processes or consume similar resources. Five models of electronic pocket calculators or six models of outboard boat motors are examples of two such product groups. In these cases it may be reasonable to plan in terms of units of the "representative" calculator or the "typical" outboard motor in the product group.

You can see, then, that organizations strive for an overall measure of output that makes sense in the context of their unique production process and product mix.

GOALS FOR AGGREGATE PLANNING

The aggregate plan must simultaneously satisfy a number of goals. First, it has to provide the overall levels of output, inventory, and backlogs dictated by the business plan. If the business plan calls for inventory buildup in anticipation of a major promotional campaign, the aggregate plan should provide for the appropriate production support. Similarly, the business plan may call for seasonal buildup or reduction, and this too must be provided for in the aggregate plan.

A second aggregate planning goal is to use the facility's capacity in a manner consistent with the organization's strategy. Underutilized capacity can be an expensive waste of resources. Therefore, a firm's strategy may well be to operate at near full capacity for efficient operations. Another company, however (e.g., one competing on the basis of flexible service to customers), may keep a cushion of capacity for quick reaction to sudden surges in market demand. We can see, then, how the planned level of capacity use depends on the company's strategy.

Finally, the aggregate plan should be consistent with the company's goals and policies regarding its employees. A firm may emphasize employment stability, especially where critical job skills are scarce and, therefore, be reluctant to hire or lay off employees. Other firms change employees freely as the output level is varied throughout the aggregate planning horizon.

THREE PURE PLANNING STRATEGIES

Several short-term capacity adjustments can be used to absorb monthly fluctuation demands. Common in make-to-stock organizations are three such adjustments. These adjustments are: 1) work force size, 2) work force utilization, and 3) inventory size. Any one of these can be modified to meet varying demand without changing the other two. Usually, however, some combination of the three is better than implementing a single strategy.

Strategy 1: Vary the Number of Productive Employees in Response to Variable Output Requirements

From historical data, management can estimate the average productivity per employee and thus determine the number of employees needed to meet each month's output requirement. When required monthly output declines, employees can be laid off. As it increases, the work force can be increased accordingly.

Several disadvantages of this strategy are obvious. The wide swings in employment levels mean very high hiring and layoff costs. Also, indirect costs of training new employees and lowered employee morale during periods of layoff are common. In addition, required work skills may not be readily available when they are needed.

Lead times necessary to hire and train employees must be accounted for in the planning horizon. Furthermore, community reaction to such a strategy may be negative. Finally, this strategy is not feasible for companies constrained by guaranteed wage and other hiring and layoff agreements with unions.

Strategy 2: Maintain a Constant Work Force Size but Vary the Utilization of the Work Force

Suppose, for example, we chose the strategy of employing 70 workers per month throughout the year. On an average, this work force would be capable of producing 700 units each day. During the year, the work force would be scheduled to produce only the amount forecasted, resulting in some idle working hours. During high demand, overtime operations would be needed to meet demand. The work force would therefore be intensely utilized during some months and underutilized in other months.

A big advantage of this strategy is that it avoids the hiring and layoff costs associated with strategy 1. But other costs are incurred instead. Overtime, for example, can be very expensive, commonly at least 50 percent higher than regular-time wages. Furthermore, there are both legal and behavioral limits on overtime. When employees work a lot of overtime, they tend to become inefficient, and job-related accidents happen more often.

Idle time also has some subtle drawbacks. During slack periods, employee morale can diminish, especially if the idle time is perceived to be a precursor of layoffs. Opportunity costs also result from idle time. When employees are forced to be idle, the company foregoes the opportunity of additional output. While wages are still paid, some potential output has been lost forever.

Strategy 3: Vary the Size of Inventory in Response to Varying Demand

Finished goods inventories in some companies can be used as a cushion against fluctuating demand. A fixed number of employees, selected so that little or no overtime or idle time is incurred, can be maintained throughout the planning horizon. Producing at a constant rate, output will exceed demand during slack demand periods, and finished goods inventories will accumulate. During peak periods, when demand is greater than capacity, the demand can be supplied from inventory. This planning strategy results in backordering. These orders outstanding fluctuate inventory levels throughout the planning horizon.

The comparative advantages of this strategy are obvious: There is stable employment, no demanded orders. plenty of idle time, and no overtime. What about disadvantages? First, inventories of finished goods (and other supporting inventories) are not cost-free. Inventories tie up working capital that could otherwise be earning a return on investment. Materials handling planning strategy that tie up costs, storage space requirements, risk of damage and obsolescence, clerical efforts, and other impacts that incorporate or combine taxes all increase with larger inventories. Backorders can also be costly. Customers may not be willing to tolerate backordering, particularly if alternative sources of supply are available; sales may be lost, and lingering customer ill will may decrease future sales as well.

In short, there are costs for carrying too much or too little inventory.

Other Items to Add to This Section

This section of your complete (master) business plan is intended to give a total overview of manufacturing facilities and capabilities. To complete this section consider adding some or all of the items noted below:

Facilities Photos
Blueprints and/or Footprint
Registrations and Licenses
Technology Requirements
Technological Research and Development
Terms
Sub-Contractors
Environmental and/or Ecological Concerns
Safety Issues
Product Risks
Special Projects, Joint-Ventures, and Partners
Energy Issues
Service Issues and/or Value-Added Services

. . . and other items specifically pertinent to your business and/or industry.

Take a chance!
All life is a chance.
The man who goes furthest is generally the one who is willing to do and dare.
Dale Carnegie

IX. Management Team Plan

Success Solutions

Management Team Issues

Organizational Structures

Management Responsibilities

7 Habits

Bringing Out the Best

Who we are as people matters as much as what we do.

Michael Eisner, CEO and chairman, Walt Disney Company

Management Team Questions

PEOPLE ARE YOUR KEY TO SUCCESS.

What are the requirements for your management team?

What skills are needed, but still missing, for your project?

Can you outline a functional company organization?

Can you define the responsibilities of the managers?

How do management team members compliment one another skills and abilities?

Do you have written resumes for the key management personnel?

What are the scheduled human resource additions (also known as manpower milestones)?

How do you reward your personnel?

Is recognition timely and specific?

Are quarterly or annual appraisal reviews for each individual implemented?

Do you have written personnel policies and procedures?

Are all procedures clear, efficient, and rational?

Are job descriptions written?

Is there clarity between staff and volunteer positions?

Are board meeting well orchestrated with a detailed, timed written agenda?

Can decisions be made with clarity and precision with a minimum of conflict?

Are decisions, directions and dialogues transparent?

Success Solutions

There seems to be an unwritten rule that SMEs and NGOs can expect to make many, many mistakes as they attempt to guide their newborn organizations along the road to success, profitability, and sustainability. Some mistakes could result in disaster culminating a total business failure. According to the U.S. Small Business Administration about 60% of all small businesses that started in 1995 failed by the end of 2000. The problem of staying in business is real and scary. Someone else succinctly said, "Problems exist to be solved." Well, we entrepreneurs know that or we wouldn't be in business.

Interestingly, many businesses fail for such simple reasons as lack of knowledge about their business or their business environment. A majority of small businesses fail for lack of planning. Almost everything connected with running a small business involves some type of planning. Here are some of the most common mistakes management makes and some suggestions for avoiding them:

- Failing to have a business plan. This is the most common mistake. Every business needs a plan. The size of the plan is unimportant, what is important is that the plan is written and updated regularly. Developing a plan takes work. . . a lot of it as is clear from this workbook. Planning is a commitment of time and energy, but is an essential road map for the success of your business.
- Failing to have adequate capital. Be realistic. Most businesses do not show a profit immediately, nor are NGOs instantaneously sustainable. So you must work at getting the funds required to keep you in business. Don't underestimate how much you will need to get your organization going. Many business owners severely underestimate their capital needs or overestimate demand and sales of products or services. It's not uncommon to be left short the first year or two of operation.
- Failing to provide not only quality, but exceptional service. This is a mistake made by both large and small businesses. But small businesses must take special note to fostering good customer relations. You should keep a close eye on your customers and your competition. Solicit advice from your customers about where they think you are doing well and where they think you could improve. Use surveys, personal inquiries, mailings, or other techniques suited to your professional style.
- Failing to plan for failure. You've seen the daunting statistics on business failures. A warning system should be devised that tells you when and where you are in trouble. Here are a few signals to put in place: 1) know your break-even points, 2) set, maintain and assure that you are meeting minimal goals, 3) pay attention to your financial statements by watching monthly trends, and 4) stayed tuned to market changes, swings, and tendencies. Although some of the signs could be temporary impediments because of seasonal factors, continuation of poor numbers and weak sales results may be telling you that it's time to close up the shop.
- Failing to keep good employees. People, consisting of management, support staff, and labor force, are a vital element in the success of your company.

Not only do you need to provide a good working environment, but you must also be competitive with your peers when it comes to pay. Often because you know your business so very well, it is automatically expected that the employees will know it well too. They don't. Time invested in training, both oral and written, is critical to maintaining a competitive edge.

These six potential business mistakes can be avoided. Whether you are just starting your business or whether you have been working at it for awhile, you can take the time to plan carefully. Jody King said, "Our dreams float above us like promises." If owning and operating a SME or NGO is your dream, keep a promise to yourself -- plan, plan well, and plan right now. It is, of course, up to you -- only you!

Management Team Issues

Unquestionably, the management team is the key to success in any organization whether at a start-up stage or at a mature stage. Investors and lenders will commit their funds only to an enterprise with balanced management team committed to success. The minimum requirements for such a management team are skills in marketing, operations, finance, and experience in doing what they propose to do.

In this section of the business plan you will list a brief description of key management personnel currently playing on your team. Be sure to include their resumes. It is suggested that the owner, director, or chairman include a one page summary. All other top executives should include a summary of about 1/2 page. Briefly describe their primary duties, key contributions, skills brought to the company, and their places in the organizational structure. Also list the board of directors and the position each person holds on the board.

The organizational structure of a particular company should follow directly from its objectives and resources. Therefore, management varies with the organization. You can choose from many theories of management and organizational models. A functional organization approach is most commonly used.

Organization Structures and Functions

The functional organization approach to management is produced following the practical lines of the company's operations. It contains departments, groups, or individuals that are responsible for tasks like engineering, purchasing, production, marketing, fundraising, finance, and so forth. Depending upon the company's size and scope, all special functions should be included in an organizational structure. In general, functions are broken into three categories: process functions, special functions and resources.

Process functions include:

objective setting	communicating	coordinating
controlling	organizing	staffing
planning	leading	

Special functions include:

public and political relations	general administration
risk management	distribution
engineering	advertising
purchasing	operations
production	personnel
marketing	finance
exports	sales
legal	taxes

Resources Include:

information	technology
equipment	material
capital	labor
land	

Add functions pertinent to your organization. The listing above is in brief and does not cover every possible function within a company. A pictorial description, such as an organizational chart, works well in this section.

Management Responsibilities

The management team has two responsibilities:

1. To determine company objectives
2. To organize the company to use available capacities (people, time and resources) efficiently and effectively.

Oftentimes in SMEs and NGOs, the management team consists of one person. Although one person can execute all the special functions required to manage, this approach is not recommended. One solution is to use part-time specialists or consultants to achieve specific functions.

A critical task of the management team leader is to identify the special functions required by the company. The manager then tests these functions against human resources currently available in the market place. Gaps are documented and a human resource development plan is then put into operation. Here's an example of how to recognize personnel functions.

- Elena Ellard and Jack Jones have decided to partner to establish an accounting practice specializing in International Accounting Standards, International Audit Standards, and small and medium-enterprise (SME) development. Both Elena and Tom are Certified Public Accountants (CPAs) and licensed to practice in their home state. They have identified that their business will require the following special functions:

political updates	insurance information
public relations	market intelligence
office management	sales of services
real estate broker	risk vs. benefits
advertising	printing
banking	legal
tax expertise	computer technician
audit expertise	bookkeeping personnel

- Their next step is to separate which functions they can do themselves (and about how much of their time they might spend doing each function) and which must or should be done by others. An expedient way to analyze functions is to set up a chart like the one below

Exercise 13 Determining Responsibilities for Functions

Objectives	To reflect on the current situation of your organization and to plan for growth and/or change To envision the need for change and/or change needed
Time	25-30 minutes
Needs	Flipchart Colored markers Overhead projector Transparencies Transparency markers
Process	<ol style="list-style-type: none"> 1. Ask participants to complete two charts a) a hypothetical chart for a start-up SME and b) a chart for their own organization <p>To connect the charts to business planning make these points:</p> <ol style="list-style-type: none"> 1. Functional charting is a technique that can bridge the differences between where we are now and where we would like to be in terms of personnel planning. Through proactive planning, we choose a desirable future, the desired team, and creation of the plan to guide us in achieving change. 2. With careful planning, we can achieve most of our plans and mold the future of our organization as desired. 3. When we plan, we want to ensure that we use organizational development principles: that is, we involve our management team and/or association members and use participatory practices that respect individuals. 4. Throughout this training, we you have practiced participatory steps. 5. Allow 10 minutes for these key points. 6. Any questions or comments about this exercise?
Variation	Omit one chart if time is short.

For Your “Other” Category consider these additional human resource needs:

- General & Administrative General Manager
- Controller/accountants
- Marketing Manager
- Sales Manager
- Field salesmen
- Field servicemen
- Research & Engineering Officers
- R & D Manager
- Electronic engineers
- Electronic technicians
- Draftsmen
- Manufacturing manager
- Manufacturing engineering
- Foremen
- Test technicians
- Direct Laborers
- Electronic data processing
- Programmers
- Total manpower/labor force

Seven Habits to Motivate the Human Spirit

From the book The 7 Habits of Highly Effective People by Stephen Covey

1. Be proactive.
2. Establish your goal.
3. Prioritize.
4. Play win-win.
5. Listen.
6. Negotiate solutions.
7. Take care of yourself physically, mentally, emotionally, and spiritually.

Bringing out the Best

What is Teamwork?

Definition:

Teamwork is the coordination of group efforts toward collective efficiency or toward a collective goal benefiting all players.

The primary question for management is: How can I motivate and reward my people in order to form an effective, well-producing team? Here are some ideas.

Ways to Reward Employees

As a manager, one of your responsibilities is to help your employees get what they want and need from their jobs. To do this you must find out what it is they want and need, and then ACT upon their desired wants and needs. Read the list below and rank the items from 1-10 (with 1 as the highest - according to the way you believe your employees would rank them. (List by Hersey and Blanchard, Management of Organizational Behavior)

- _____ Good working conditions
- _____ Feeling included on important decisions
- _____ Tactful disciplining
- _____ Full appreciation for work done
- _____ Management loyalty to employees
- _____ Good wages
- _____ Promotion and growth within the company
- _____ Sympathetic understanding of personal problems
- _____ Job security
- _____ Interesting work

The next step is to give this list to your employees and have them rank the items. At the same time, ask what items they believe are missing from the list. Lastly, compare management's inputs to employee's inputs. Are you in agreement?

The deepest principle in human nature
is the craving to be appreciated.
William James

Rewards Ideas

Results of a recent survey by the Council of Communication Management confirm what almost every employee already knows: that recognition for a job well done is the top motivator of employee performance. Yet, 33 percent of managers report that even they would like to receive better recognition. What is the percentage for you? The guidelines for rewarding and recognizing employees are simple:

1. Match the reward to the person.
2. Match the reward to the achievement.
3. Be timely and specific.
4. Programs should reflect a company's values and strategies.
5. Employees should participate in the development and execution of programs.
6. The programs can involve cash, non-cash, or both.
7. Since what is meaningful to you may not be meaningful to someone else, the programs should encompass variety.
8. The programs should be highly public.
9. The programs should have a short life span and must be changed frequently.

For more than a thousand ideas on how to reward outstanding performers, read [1001 Ways to Reward Employees](#) by Bob Nelson. Nelson developed three broad categories for rewards including: a) informal rewards, b) awards for specific achievements and activities, and c) formal rewards.

Here are a few examples:

- Workers who must stay late at Time Inc. get cab fare home.
- Chevron keeps a Treasure Chest brimming with gifts so supervisors can reward employees on the spot.
- Every Christmas, The Walt Disney Company opens Disneyland for employees and families only -- with management executives running the amusement park.
- At Celestial Seasonings, a company that packages herbal teas in Boulder, CO, every employee receives a \$25 on his or her birthday.
- Pitney Bowes, headquartered in Stamford, CT, awards \$25 for the best oral and written questions submitted at the annual stockholder's meeting.
- What rewards do you currently provide?

Whether you are in a start-up phase, direct an organization, manage a department, oversee a large division or run a small business with just one employee, it is essential to create a Management Team Plan. Recognizing the gaps that may exist in expertise and functions is crucial to enduring success.

X. Financial Analysis

Guidelines for Good Financial Management

Definitions for:

Pro Forma Income Statement

Pro Forma Balance Sheet Statement

Pro Forma Cash Flow Statement

Break Even Analysis

Financial Ratios

Strategies for Managing Cash in an Inflationary Environment

Financial Statement Templates

Financial Analysis Questions

Are your financial policies and procedures written?

Have you prepared a pro forma income statement?

Have you prepared a pro forma balance sheet statement?

Have you prepared a pro forma cash flow statement?

Do you know your break-even point?

How do you evaluate sustainability?

What cash management strategies are most useful in an inflationary environment?

How can the company safeguard itself against inflation?

Do you use financial ratios to assess your company's strengths and weaknesses?

How much did your revenues, unit sales, and profits grow during the past year?
To what do you attribute this growth?

Were there any unusual events that materially affected sales or expenses during the past year?

Are your assets valued reasonably?

What method of accounting was used to value these assets?

What are the key assumptions used to develop the projected financial statements?

Which of these assumptions are most vulnerable to substantial change?
Under what conditions?

How can the company safeguard itself against unanticipated problems in the future?

Will this business plan be used to raise additional capital?

How will new capital be used?

What impact will financing or new capital have on sales, production, and profitability?

What are the greatest risks in investing in this company?

Are you sustainable?

Are you dependent on one income source?

Are your products and services diversified to generate multiple sources of income?

Is overhead controlled, planned, and projected?

Are goals to generate revenues "SIMPLE?"

Guidelines for Good Financial Management

Before we enter the discussion about financial statement and financial analysis, consider these seven ground rules for organizational accountability:

1. Budgets containing realistic revenues and expenditure estimates should be prepared and formally approved annually.
2. Accounting systems must reflect worthwhile financial information required to formulate managerial decisions.
3. System requirements should include mechanisms for cash forecasting, cash control, and reporting.
4. Policies, practices, and procedures for debt management must disclose all debt is known, approved, and recorded.
5. Internal control structures must ensure that resources are safeguarded against waste, loss, and misuse.
6. Internal and external independent audits are desired.
7. Experts and consultants should be enlisted are needed.

Financial analysis is an imperative portion of the business plan. Use this section to set up a detailed budget and actual plans. Budgets drive direction; actuals verify direction.

The terms budget, pro forma, estimate, projection, and forecast are used crossing point in financial discussions. Pro forma financial statements should be prepared annually and forecasted out to the future for a three or five year period. Monthly and quarterly your forecasts will then be compared to your actual financial activity.

Financial forecasting and frequent periodic investigation of financial statements can detect problems that often cause businesses to fail. For example, the income statement may expose dwindling sales or high marketing expenses. The balance sheet may reveal mismanagement in accounts receivable and inventory. The cash flow statement may show problems of cash mismanagement, negative cash flow, or seasonality low-cash problems. Detecting problems early can lead to corrective actions before problem are too serious.

Financial statements and forecasts serve other purposes as well. Banks and other lenders require these reports before they will grant the company a loan. Additionally, these reports monitor financial position throughout the loan period. Also annual income tax returns require information that is explicitly itemized from the financial statements.

There are a number of financial statements for organizations to complete. However for this section, our discussions will center on three main statements. These three basic financial documents permit you to analyze, control, and plan. They are: income statement, balance sheet, and cash flow. We'll be following two tracks: 1) budget and 2) actual. Financial statement templates are provided at the end of this section. The financial statements can be easily created on an electronic spreadsheet.

Definitions:

Pro Forma Income Statement

The pro-forma income statement measures profitability. It is also commonly called a profit and loss statement. The statement shows what sales income the company enjoyed, less all costs (expenses), and a result of what is left. To start, complete the following items:

- 1) Pro Forma Monthly Income Statement for an entire 12-month fiscal year period.
- 2) Pro Forma Yearly Statement for the current year.
- 3) Pro Forma Yearly Statement to project the next five years.

Note the layout and flow of these three financial statements. Figures on these statements should also be stated as a percentage of net sales. Assumptions made in estimating a particular number should be footnoted and summarized on a separate page after each appropriate financial statement.

Pro Forma Balance Sheet Statement

The pro-forma balance sheet statement lists all company's assets, liabilities, and equity positions. Enter the appropriate figures on the Pro Forma Balance Sheet to forecast the next five years. This forecast will show whether your company has the resources it needs to meet its growth goals.

Pro Forma Cash Flow Statement

Liquidity (having enough cash on hand to pay all planned disbursements) is essential if a business is to survive. The Pro Forma Monthly Cash Flow Statement will indicate whether your company will have enough cash for the coming year or whether you will need outside financing. Fill out the line items on a monthly basis. This statement should clearly show how cash will be utilized. A cash flow statement will help you determine the maximum cash required for a twelve month period. It reflects cash highs and lows. The statement should be developed to analyze monthly, quarterly, and annually cash inflows and outflows.

Break-Even Analysis

Break-even analysis is a mathematical technique for analyzing the relationship between profits and fixed and variable costs. Break-even analysis is also a profit-planning tool for calculating the point at which sales will equal total costs. This analysis tool shows the intersection of total sales and total cost lines; thereby, determining the units produced to achieve this point.

In break-even analysis, linearity is implicit. If a firm's costs were all variable, the firm could be profitable from the start, then it would not suffer losses until a given volume had been reached. To avoid losses, sales price must cover all costs that vary directly with production and all costs that vary indirectly with production. Indirect costs do not change with production levels. Costs that fall into each of these categories are, in general, outlined below:

Fixed costs

- General office expenses
- Rentals
- Depreciation
- Interest
- Salaries
- Other
- Direct (and/or Indirect as attributable)

Variable costs

- Factory labor (direct)
- Materials
- Other

Here are two equations used to determine a break even point.

1) Break-even (B/E) point based on dollar sales:

$$S_{B/E} = \frac{FC}{1 - VC/S}$$

where:

$$\begin{aligned} FC &= \text{Total Fixed Costs} \\ VC &= \text{Total Variable Costs} \\ S &= \text{Total Sales Volume} \end{aligned}$$

2) Break-even (B/E) point based on quantity produced and sold:

$$Q_{B/E} = \frac{FC}{P - VC}$$

where:

$$\begin{aligned} P &= \text{Sales Price per Unit} \\ Q &= \text{Quantity Produced and Sold} \\ FC &= \text{Fixed Costs} \\ VC &= \text{Variable Costs per Unit} \end{aligned}$$

For example, note the illustration for fixed costs of \$80,000:

$$\begin{aligned} \text{Break-even point based} & \quad \underline{\$80,000} \\ \text{on quantity} & = \$3.00 - \$2.00 = 80,000 \text{ units} \end{aligned}$$

Volume changes are not the only factors that affect profitability. For example, by reducing fixed costs, a firm can increase its profit and at the same time reduce its break-even point in terms of units.

Ratios

Ratios are classified into four basic types: liquidity, leverage, activity, and profitability. Select ratios that are most consequential to your company. Remember that a ratio is not meaningful in itself. To be useful, ratios must be compared in a trend analysis and to competitors or to the industry.

Use basic financial ratios to evaluate the company's past and present position. These ratios will enable you to estimate the chances of acquiring funds. For example, a bank that is considering granting long-term leverage will emphasize earning power and operating efficiency. The firm must be able to repay its debts as well as earn profits.

Definitions of Useful Ratios Terms:

Average daily credit sales: are obtained by dividing the credit sales made during a period by the number of days in the period.

Common equity: is the common shareholder's investment in the firm. It is measured by subtracting the total debt and preferred stock from total assets. Common equity normally includes the common stock, paid-in surplus, and retained earnings accounts.

Contribution margin: is the excess of net sales revenue over variable operating costs. It is so called because it represents the contribution of revenues to overhead (fixed operating expenses) and profit.

Current assets: are cash resources or resources that can reasonably be expected to be turned into cash within either the firm's normal operating cycle or one year. Current assets include cash, marketable securities, notes, and accounts receivable (less reserve for bad debts), inventory, and prepaid expenses.

Current debt: is the total of all liabilities currently incurred that will be due and payable within one year.

Equity: is the ownership interest in the firm. It is normally determined by subtracting total debt from total assets.

Fixed operating costs: are operating expenses that tend to remain relatively unchanged as production and sales levels change. For many firms, expenses for supervisory salaries, depreciation, amortization, insurance, and other types of overhead requirements do not vary directly with the level of production but tend to remain relatively constant within capacity constraints.

Funded debt: is the total of all long-term obligations, as represented by mortgages, bonds, debentures, term loans, and other types of liabilities maturing more than one year from the date of the financial statement.

Gross profit: is net sales minus cost of goods sold.

Liquid assets: are the cash and near-cash assets of the firm. Near-cash assets normally include highly marketable money market instruments.

Net assets: are total assets minus current liabilities.

Net sales: are obtained by subtracting sales returns and allowances and cash discounts taken on sales from gross sales.

Net working capital: is the excess of current assets over current debt. It is obtained by subtracting total current debt from total current assets.

Operating assets: are those assets which the firm needs to carry out its normal activities. They are obtained by subtracting non-operating assets, such as unrelated securities, real estate, and intangible assets, from total assets.

Operating profit: is net sales minus all related operating expenses including cost of goods sold, general and administrative expenses, and selling expenses.

Quick assets: are total current assets minus inventory.

Tangible net worth: is owners', partners', or stockholders' equity in the business. It is obtained by subtracting total debt from total assets and then deducting the dollar amount of intangible assets carried by the firm.

Total debt: is the sum of all current and long-term liabilities.

Variable operating costs: are those expenses, such as direct labor and direct material, which tend to vary directly with the level of production and sales.

Liquidity Ratios

A liquidity ratio is used to:

- To measure the firm's ability to meet its current obligations as they come due.
- To indicate the degree to which a firm is in a cash or near-cash position.
- To measure the relationship between the supply of and the demand for cash assets.

Computation for Liquidity Ratios:

Current Ratio: Shows the firm's margin of safety with regard to meeting current debt from the current assets

$$\text{*Current Ratio} = \frac{\text{Current Assets}}{\text{Current Debt}}$$

Quick Ratio: Indicates the firm's ability to meet its current debts without relying upon inventory, which is the least liquid of a firm's current assets.

$$\text{*Quick Ratio} = \frac{\text{Current Assets} - \text{Inventories}}{\text{Current Debt}}$$

Inventory to Net Working Capital: An additional measure of inventory balance. If an excessive percentage of net working capital is reflected by unsold inventory, the firm may have difficulty in meeting currently maturing obligations.

$$\text{*Inventory to Net Working Capital} = \frac{\text{Inventory}}{\text{Net Working Capital}}$$

Current Debt to Inventory: Another indication of the extent to which the firm relies on funds from disposal of unsold inventories to meet its current debts.

$$\text{*Current Debt to Inventory} = \frac{\text{Current Debt}}{\text{Inventory}}$$

Leverage Ratios

Leverage ratios fall into two categories: 1) financial structure ratios and 2) coverage ratios. Financial structure ratios are used to:

- To compare the financing provided by owners with the financing provided by creditors, and
- To indicate the extent to which the firm relies on short-term and long-term borrowed funds.

Similarly coverage ratios are used to:

- To measure the potential volatility of the firm's earnings due to the existence or introduction of fixed operating costs.
- To measure the potential volatility of the firm's earnings due to the existence or introduction of fixed financial changes.
- To measure the firm's ability to service fixed financial changes from current earnings.

Computation of Financial Structure Ratios: Measures the firm's obligations to creditors in relation to the total funds supplied to the firm. Total debt includes current, intermediate-term, and long-term liabilities.

$$\text{*Total Debt to Total Assets} = \frac{\text{Total Debt}}{\text{Total Assets}}$$

Current Debt to Total Assets: Indicates the extent to which the firm relies on current debt to finance assets.

$$\text{*Current Debt to Total Assets} = \frac{\text{Current Liabilities}}{\text{Total Assets}}$$

Total Debt to Tangible Net Worth: When this relationship is high, a relatively small decrease in the value of assets could wipe out owner's equity and remove protection from creditors. Too much debt exposes the firm to the risks of unexpected contingencies and of being unable to borrow in case of need.

$$\text{*Total Debt to Tangible Net Worth} = \frac{\text{Total Debt}}{\text{Tangible Net Worth}}$$

Current Debt to Tangible Net Worth: When this relationship is high, the firm is exposed to the hazards of frequent maturities, constant renewal problems, and perhaps the unavailability of short-term funds.

$$\text{*Current Debt to Tangible Net Worth} = \frac{\text{Current Debt}}{\text{Tangible Net Worth}}$$

Computation of Coverage Ratios

Approximate Sales Volume Needed to Cover Operating Expenses and Degree of Financial Leverage: Measures the potential magnification of change in net return to common shareholders given a change in the level of operating profit.

$$\text{*Approximate Sales Volume Need to Cover = } \frac{\text{Fixed Operating Costs}}{1 - [\frac{\text{Variable Operating Costs}}{\text{Actual Net Sales}}]}$$

$$\text{*Degree of Financial Leverage = } \frac{\text{Net Operating Profit}}{\text{Net Profit Before Taxes}}$$

Times Interest Earned: Shows the relationship between earnings available for paying taxes and interest charges. The ratio is closely related to degree of financial leverage. A low times interest earned means a high degree of financial leverage and vice versa.

$$\text{*Times Interest Earned = } \frac{\text{Net Profit Before Interest \& Taxes}}{\text{Interest Charges}}$$

(The numerator is frequently referred to as “earnings before interest and taxes” or EBIT.

Activity Ratios

An activity ratio is used to:

- To measure how effectively assets employed in the firm are being used.
- To measure how effectively funds employed in the firm are being used.

Computation of Efficiency Ratios: Measures the firm's ability to control investment in cash and near-cash assets. Generally a high liquid asset velocity is desirable since these assets produce zero or very small returns. However, a very high turnover may also indicate inadequate liquid assets and a potential liquidity problem.

$$\text{*Liquid Asset Turnover} = \frac{\text{Net Sales}}{\text{Cash} + \text{Marketable Securities}}$$

Receivables Turnover: Measures the firm's effectiveness in controlling investment in receivables. This ratio is particularly important for firms that sell mostly on a credit basis.

$$\text{*Receivables Turnover} = \frac{\text{Credit Sales}}{\text{Receivables}}$$

Collection Period Days: Used to analyze the collectibility of receivables. Generally, the collection period should not exceed the net maturity indicated by the terms of sale by more than one-third.

$$\text{*Collection Period Days} = \frac{\text{Notes and Accounts Receivable} \times 360}{\text{Annual Credit Sales}}$$

Net Sales to Inventory: This ratio does not yield an actual physical turnover. It shows merely the relation of sales to inventory. A high ratio may indicate too little inventory, a low ratio may indicate too much. Cost of goods sold is often used instead of net sales to eliminate the effect of different price markups among the product lines of different firms.

$$\text{*Net Sales to Inventory} = \frac{\text{Net Sales}}{\text{Inventory (Inventory Turnover)}}$$

Total Asset Turnover: Used to measure the use of the total assets employed by the firm. This ratio measures the dollars of sales generated per dollar of investment in assets.

$$\text{*Total Asset Turnover} = \frac{\text{Net Sales}}{\text{Total Assets}}$$

Net Sales to Tangible Net Worth (Also referred to as Equity Turnover): If owner's equity turns over too slowly, funds become stagnant and profitability suffers. If owner's equity turns over too fast, it may indicate that the amount owed to creditors has become a substitute for owner's funds.

$$\text{*Net Sales to Tangible Net Worth} = \frac{\text{Net Sales}}{\text{Tangible Net Worth}}$$

Average Payment Period: Indicates the average number of days the firm is taking to pay for credit purchases. This ratio is useful for comparing actual payments in terms of purchases.

$$\text{*Average Payment Period} = \frac{\text{Accounts Payable}}{\text{Credit Purchases}} \times \frac{\text{Number of Days}}{\text{in a Period}}$$

Stated in words *Average Payment Period = Accounts Payable divided by Credit Purchases times Number of Days in a Period

Profitability Ratios

A profitability ratio is used to:

- To measure management's overall effectiveness as shown by the returns generated on sales and investment.

Profitability ratios fall into several categories, including a) computation of returns to sales, b) computation of return on asset investment, and c) computation of return on owner's investment.

A) Computations of Returns to Sales

$$\text{*Gross Profit Margin} = \frac{\text{Gross Profit}}{\text{Net Sales}}$$

$$\text{*Operating Profit Margin} = \frac{\text{Net Profit Before Taxes}}{\text{Net Sales}}$$

$$\text{*Net Profit Margin after Taxes} = \frac{\text{Net Profit after Taxes}}{\text{Net Sales}}$$

B) Computation of Return on Asset Investment

$$\text{*Return on Total Assets} = \frac{\text{Net Profit After Taxes}}{\text{Total Assets}}$$

$$\text{*Return on Operating Assets} = \frac{\text{Operating Profit}}{\text{Operating Assets}}$$

C) Computation of Return on Owner's Investment

$$\text{*Return on Net Worth} = \frac{\text{Net Profit after Taxes}}{\text{Net Worth}}$$

$$\text{*Return on Investment} = \frac{\text{Net Profit after Taxes}}{\text{Net Assets}}$$

$$\text{*Dividend Yield} = \frac{\text{Dividends per Share of Common Stock}}{\text{Market Price per Share of Common Stock}}$$

$$\text{*Earnings per Share of Common of Stock} = \frac{\text{Net Profit after Taxes Less Preferred Stock Dividends}}{\text{Number of Outstanding Shares of Common Stock}}$$

$$\frac{\text{Market Price per Common Share}}$$

***Price/Earnings Ratio =** Earnings per Common Share

Note: It is not necessary to use all of the above ratios. Instead select those ratios that are pertinent to your business or product or service. Test ratios on a monthly basis to check for liquidity, cost controls, and revenue generation sustainability.

Strategies for Managing Cash in an Inflationary Environment

Through the years participants in this training session, "Writing an Effective Business Plan," have presented a number of good ideas for managing cash in inflationary environments. The top 13 ideas generated to date are:

1. Use hard currency
2. Invest in liquid assets like quickly saleable goods and/or good with no shelf life
3. Insure the business wisely
4. Increase working capital turnover
5. Solidify and enforce legal contracts
6. Hedge
7. Index
8. Lease
9. Cut back on long-term investments
10. Negotiate fixed rate loans
11. Barter
12. Use "just-in-time" inventory control
13. Create pre-payment incentives

What additional cash management techniques can you add?

Exercise 15 Funds Allocations

Objectives	To practice developing sources and uses of funds To practice flow of International Accounting Standards To envision sustainability and how to implement it
Time	25-30 minutes
Needs	Flipchart Colored markers Overhead projector Transparencies Transparency markers
Process	<ol style="list-style-type: none"> 1. Assign participants to teams of 4-5 persons per team 2. Give each team a 4 x 6 card with an amount <ul style="list-style-type: none"> Team 1 will prepare an income statement Team 2 will prepare a balance sheet Team 3 will prepare a cash flow statement Team 4 will create a list of sources for funds Team 5 will be a panel of “experts” to assist with development of the financial statements 3. Participant team tasks are to: <ol style="list-style-type: none"> a. Use the templates as background for the preparation of the financial statements b. Self-select one team member to present results c. Use transparencies to create statements 4. Exercise outcomes expected from the teams are: <ol style="list-style-type: none"> a. Completion of a financial statement 5. Instructions <ol style="list-style-type: none"> a. Ask questions b. Expect good interaction as team members query the “expert consultants”
Debriefing	Self-selected member should give debriefing of the team’s financial statement within 5 minutes Any questions or comments about this exercise?
Variations	Omit one chart if time is short.

Financial Statement Templates

All templates were produced in Microsoft Excel. A template is for illustrative purposes only. Each item should be refined to suit your situation by identifying relevant income and expense items. The templates presented here are:

Income Statements

1. Current Income Statement
2. Pro Forma Monthly Income Statement
3. Pro Forma 5 Year Income Statement

Balance Sheets

4. Current Balance Sheet
5. Pro Forma Monthly Balance Sheet
6. Pro Forma 5 Year Balance Sheet

Cash Flow Statements

7. Current Cash Flow Statement
8. Pro Forma Monthly Cash Flow Statement
9. Pro Forma 5 Year Cash flow Statement

1. Current Income Statement

Company Name CURRENT INCOME STATEMENT	<u>CURRENT MONTH</u>		<u>YEAR TO DATE</u>	
	<u>Amount</u>	<u>% of Sales</u>	<u>Amount</u>	<u>% of Sales</u>
REVENUE				
Gross Sales				
Less sales returns and allowances				
Net Sales				
Cost of Sales				
Beginning inventory				
Plus purchases (retailer) or				
Plus cost of good (manufacturer)				
=Total Goods Available				
Net Sales – Total Good Available =				
Cost of Goods Sold				
Gross Profit (Gross Margin)				
OPERATING EXPENSES				
Selling				
Salaries and wages				
Commissions				
Advertising				
Depreciation				
Other				
Total Selling Expenses				
General/Administrative				
Salaries and wages				
Employee benefits				
Insurance				
Depreciation				
total General/Administrative Expenses				
Total Operating Expenses				
Other Revenue and Expenses				
Net Income before Taxes				
Taxes on income				
Net Income after Taxes				
Extraordinary Gain or Loss				
Income tax on extraordinary gain				
NET INCOME (NET PROFIT)				

2. Pro Forma Monthly Income Statement

Company Name PROJECTED MONTHLY INCOME STATEMENT													
	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>	<u>May</u>	<u>Jun</u>	<u>Jul</u>	<u>Aug</u>	<u>Sep</u>	<u>Oct</u>	<u>Nov</u>	<u>Dec</u>	<u>TOT</u>
REVENUE													
Gross Sales													
Less sales allowances													
Net Sales													
Cost of Sales													
Beginning inventory													
Plus purchases (retailer) or													
Plus cost of good (manufacturer)													
Total Goods Available													
Gross Profit (Gross Margin)													
OPERATING EXPENSES													
Selling													
Salaries and wages													
Commissions													
Advertising													
Depreciation													
Other													
Total Selling Expenses													
General/Administrative													
Salaries and wages													
Employee benefits													
Insurance													
Depreciation													
total General/Administrative													
Expenses													
Total Operating Expenses													
Other Revenue and Expenses													
Net Income before Taxes													
Taxes on income													
Net Income after Taxes													
Extraordinary Gain or Loss													
Income tax on extraordinary gain													
NET INCOME (NET PROFIT)													

4. Current Balance Sheet

	<u>Current Date</u> <u>Amount</u>
Company Name	
CURRENT BALANCE SHEET	
ASSETS	
Current Assets	
Cash	
Accounts receivable less allowance for doubtful accounts	
Net accounts receivable	
Notes receivable	
Inventory	
Prepaid expenses	
Other	
Total Current Assets	
Fixed Assets	
Land	
Buildings, net of depreciation	
Furniture & Fixtures, net of depreciation	
Equipment, net of depreciation	
Total Net Fixed Assets	
Other assets	
Total Assets	
LIABILITIES	
Current Liabilities	
Accounts payable	
Notes payable	
Taxes payable	
Other	
Total current Liabilities	
Long-Term Liabilities	
Other	
Total Liabilities	
Equity	
Retained earnings	
*Net equity	
Total Liability and Equity	
*RECONCILIATION OF EQUITY	
Equity at beginning of month	
Plus: net income (or loss) after taxes	
Less: total deductions (withdrawals to owners or dividends to shareholders)	
Net equity (enter above)	

5. Pro Forma Monthly Balance Sheet

Company Name
PROJECTED MONTHLY
BALANCE SHEET

	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>	<u>May</u>	<u>Jun</u>	<u>Jul</u>	<u>Aug</u>	<u>Sep</u>	<u>Oct</u>	<u>Nov</u>	<u>Dec</u>
ASSETS												
Current Assets												
Cash												
Accounts receivable less allowance for doubtful accounts												
Net accounts receivable												
Notes receivable												
Inventory												
Prepaid expenses												
Other												
Total Current Assets												
Fixed Assets												
Land												
Buildings												
Equipment												
Total Net Fixed Assets												
Other assets												
Total Assets												
LIABILITIES												
Current Liabilities												
Accounts payable												
Notes payable												
Taxes payable												
Other												
Total current Liabilities												
Long-Term Liabilities												
Other												
Total Liabilities												
Equity												
Retained earnings												
Net equity												
Total Liability and Equity												

6. Pro Forma 5 Year Balance Sheet

Company Name PROJECTED 5 YEAR BALANCE SHEET	<u>Qtr</u>											
	<u>200X</u> 1	<u>Year</u> 2	<u>1</u> 3	<u>s</u> 4	<u>200X</u> 1	<u>Year</u> 2	<u>2</u> 3	<u>Qtrs</u> 4	<u>200X</u> 1	<u>Year</u> 2	<u>3</u> 3	<u>Qtr</u> 4
ASSETS												
Current Assets												
Cash												
Accounts receivable less allowance for doubtful accounts												
Net accounts receivable												
Notes receivable												
Inventory												
Prepaid expenses												
Total Current Assets												
Fixed Assets												
Land												
Buildings												
Equipment												
Total Net Fixed Assets												
Total Assets												
LIABILITIES												
Current Liabilities												
Accounts payable												
Notes payable												
Taxes payable												
Total current Liabilities												
Long-Term Liabilities												
Total Liabilities												
Equity												
Retained earnings												
Net equity												
Total Liability and Equity												

7. Current Cash Flow Statement

Company Name ACTUAL vs BUDGET CASH FLOW STATEMENT	<u>Jan</u> <u>Actual</u>	<u>Jan</u> <u>Budget</u>	<u>Feb</u> <u>Actual</u>	<u>Feb</u> <u>Budget</u>	<u>Mar</u> <u>Actual</u>	<u>Mar</u> <u>Budget</u>	<u>Apr</u> <u>Actual</u>	<u>Apr</u> <u>Budget</u>	<u>May</u> <u>Actual</u>	<u>May</u> <u>Budget</u>	<u>Jun</u> <u>Actual</u>
Beginning Balance											
RECEIPTS											
Cash Sales											
Loans											
Other											
Total Receipts											
DISBURSEMENTS											
Direct Materials											
Direct Labor											
Equipment											
Salaries											
Rent											
Insurance											
Advertising											
Taxes											
Loan payments											
Other											
Total Disbursements											
TOTAL CASH FLOW (Receipts less Disbursements)											
Ending Balance											

8. Pro Forma Monthly Cash Flow Statement

Company Name PROJECTED MONTHLY CASH FLOW STATEMENT	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>	<u>May</u>	<u>Jun</u>	<u>Jul</u>	<u>Aug</u>	<u>Sep</u>	<u>Oct</u>	<u>Nov</u>	<u>Dec</u>	<u>TOT</u>
Beginning Balance													
RECEIPTS													
Cash Sales													
Loans													
Other													
Total Receipts													
DISBURSEMENTS													
Direct Materials													
Direct Labor													
Equipment													
Salaries													
Rent													
Insurance													
Advertising													
Taxes													
Loan payments													
Other													
Total Disbursements													
TOTAL CASH FLOW (Receipts less Disbursements)													
Ending Balance													

9. Pro Forma 5 Year Cash flow Statement

Company Name PROJECTED 5 YEAR CASH FLOW STATEMENT	<u>200X</u>				<u>Year 1</u>				<u>Year 2</u>				<u>Year 3</u>				<u>Year 4</u>			
	<u>1</u>	<u>2</u>	<u>3</u>	<u>Qtr 4</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>Qtr 4</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>Qtr 4</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>Qtr 4</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>Qtr 4</u>
Beginning Balance																				
RECEIPTS																				
Cash Sales																				
Loans																				
Other																				
Total Receipts																				
DISBURSEMENTS																				
Direct Materials																				
Direct Labor																				
Equipment																				
Salaries																				
Rent																				
Insurance																				
Advertising																				
Taxes																				
Loan payments																				
Other																				
Total Disbursements																				
TOTAL CASH FLOW (Receipts less Disbursements)																				
Ending Balance																				

XI: Mastering the Planning Process

Commitments

Participant's Strategy Action Plan

Conclusion

No horizon is so far that you cannot get above it or beyond it.

Beryl Markham
"West with the Night"

Questions about Your Journey

What are the main characteristics defining a successful journey for writing an effective business plan?

Who is involved?

Where and when did it or will it take place?

What motivated you to engage in writing an effective business plan?

How did you challenge yourself and others?

What can you do build to enthusiasm and excitement to complete the plan?

How did you or how will you involve others?

What mechanisms did you use to foster collaboration?

How did you build trust and respect?

How did you build the capacity to excel?

What principles and values guided you and others?

How did you set a personal example of leadership?

What structures and systems did you apply?

How did you recognize individuals?

How did you celebrate the successful completion of your new plan?

What lessons did you learn about leadership from this experience?

Your Journey Continues

Light tomorrow with today.

Elizabeth Barrett Browning

I have written several articles about technical skills needed to develop and grow a business or an NGO. Technical aspects are essential for managing an operation successfully. However, there is more to owning and operating an enterprise than just technical abilities. A big part of being an entrepreneur, executive, director, or leader is pure inspiration and the struggle you'll endure to bring your vision to reality.

Why be an entrepreneur? Why start a business association? Why risk money, time, resources, energy, and health to start an organization? Through the decades the answer has long been the same. As leaders, we see a need and we fill it. That's what entrepreneurs do best. Seeing a particular need is what makes our creativity flow. Role models exist everywhere in every neighborhood across the globe. Business leaders are taking long strides, assuming huge risks, and setting a brisk pace to create, own and manage SMEs and NGOs businesses.

SMEs and NGOs are on the cusp of enormous popularity in transitioning and developing economies. In the USA, owning a business has replaced the American dream of owning a home. Everywhere people need services and products. It's the entrepreneur who will figure out how to invent, produce and deliver for consumer needs. Catering, home cleaning services, party planning, psychological consulting, local cafes, advertising agencies, desktop publishing, massage, manicuring, interior painting, furniture repair, clothing boutiques, pet grooming, resume writing, tailoring, upholstery repair, shoe repair, word-processing, artistic pursuits, light industry, food processing, agriculture, electronics, professional services like accounting, legal, taxation, real estate and many, many more businesses are emerging every day. Where the market economy begins? It begins at home in your own back yard.

What's your endeavor? What is it that you really want to do? Remember the number one rule: *find a need and fill it.* Just look around you for the inspiration to do it.

As you explore what your inspiration might be, remember to plan. Planning must precede implementation for accurate utilization of resources.

According to an Inc. Magazine survey, chief executive officers (CEOs) spend 19% of their time on strategic planning. Not a bad percentage considering the perplexing state of our world. Are you part of the other 71% that merely muses about strategic planning? Steel magnate Andrew Carnegie was a big believer in planning, and unquestionably achieved enormous strategic excellence. In the 1930's Carnegie suggested to Napoleon Hill that Hill study the industrial tycoons of the time, assess strengths and weaknesses, and report his findings. Hill's findings are the basis of a classic business book titled "Think and Grow Rich." The synthesis of Hill's book is this sentence, "Anything the mind can conceive and believe the mind can achieve."

Now it is your time and your turn to conceive, believe, and achieve. The strength of your organization rests on your shoulders. A strategic plan provides insight into the resources you need to build the robust community that you envision. A particular step is building a business and government partnership to construct a strong economic district. Each entity plays a crucial role in developing small and medium-sized enterprise (SME) activity. It is the individual organization and/or company that is the vital voice. Advocacy, policy papers, communication, and networking guide development of SMEs, promote a civil society, enhance rule of law, and fundamentally contributes to a strong economy by building entrepreneurs who are able to produce, market, and sell.

Strategic planning is one valuable tool in your success kit. Remember: A dream deferred is a dream denied. It doesn't have to be. A dream detailed in imaginative Technicolor, written out in full features, and strategized into incremental, achievable steps is always a dream achieved.

Until one is committed there is hesitancy, the chance to draw back,
always ineffectiveness ...
Boldness has genius, power, and magic in it. Begin it now. Goethe

Exercise 14 Commitments for Writing an Effective Business Plan

Ponder quietly for a moment the knowledge most meaningful to you that surfaced during this seminar. Identify three commitments related to building an effective business plan that you will personally commitment your inner resources to enhance performance of your organization. Then identify the specific resources needed, potential obstacles, a practical timeline, and signs or measures of success.

1. Key Learnings:

- A.
- B.
- C.

2. Commitments of Building an Effective Business Plan:

- A.
- B.
- C.

3. Resources Needed:

- A.
- B.
- C.

4. Potential Obstacles:

- A.
- B.
- C.

5. Measures of Success:

- A.
- B.
- C.

6. Timeline:

- A.
- B.
- C.

Your Journey Continues

To position your organization ahead of the competitive curve complete the individual exercise below. The following glimpse into the future is outlined in greater detail in Taylor, Wacker and Means's book titled The Visionary's Handbook. Complete the following three propositions, but before you do, bear in mind these three rules:

- Your answers below must be stated as absolutes. Allow no gray areas and no fence-sitting. Take a firm stand.

- Your answers must be conceivable in your own mind and authentic to your own reality. If you can't imagine yourself in the future you describe, you've got the wrong future in mind.

- For each answer, you need a set of implementable activities (tactics) within your span of control that will a) increase the probability that the future described could come true, and b) decrease the likelihood that it won't come true.

In order for my organization to be successful within three years, I must passionately . . .

In order for my organization to be successful within five years, I must single-mindedly . . .

To feel that my organization has made a significant contribution to our community within the next ten years, with total commitment I must .

"The key that unlocks the door to opportunity is learning."
Authors Kouzes and Posner

Participant's Action Plan

Write your final notes and ideas here that require immediate follow-up, further research, board approval, or deeper contemplation.

Can you condense this training into a concrete closing statement?

Conclusion

If you've successfully followed Section 1 to 11, gathered the data required for each section, then you now have your company's business plan well underway. This process is an ongoing learning experience. It's a learning process producing a meaningful management tool by which progress is measured, monitored, and adapted to changing environments.

No business planning process is static. Rather it is an ongoing progression of economic conditions, market trends, social attitudes, and a host of other factors. Many factors affect performance, including actions by competitors, general economic conditions, political processes, increases or decreases in demand for the company's product or service, introduction of new products and services, new market niche potentials, and so forth. The plan you have developed should be updated frequently, or at least annually, as necessitated by environmental circumstances. Your strategies and goal must be re-evaluated with frequency to effectively reflect the rapidly changing global circumstances.

The business plan is a flexible management tool that will allow you to construct organizational decisions as commercial conditions require. Through the business plan, you have identified the company's strengths, weaknesses, opportunities and threats, resources available, key personnel and their respective areas of responsibility, as well as your financial capabilities. You also have a working knowledge of the industry, market, and competition. Use all information you have carefully collected to its fullest competitive advantage.

Your business plan is a work of art in progress. It will get better, stronger, and more useful every time you revise, edit, and upgrade it. In the end, a business plan will guide your business' growth, secure market viability, and contribute significantly to the economic health of the community.

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Currently a Training Expert for The Louis Berger Group, consults globally with business associations. Jalbert specializes in consulting, technical assistance, training and policy advocacy to benefit small and mid-sized enterprises (SMEs) through the strengthening voices of business associations and their members. The past 20 years Jalbert consulted in 37 countries. Dr. Jalbert is a founding member of the Women Entrepreneur Association of Nepal (WEAN), Producing Artists Foundation of St. Petersburg, Russia and several other associations. Dr. Jalbert's objective is to promote and advocate for economic self-sufficiency via entrepreneurship.

السيرة الذاتية للدكتورة سوزان جالبرت – الاستاذة المحاضرة يوم الاثنين 20 آذار 06

دكتورة سوزان جالبرت تعمل حالياً كخبيرة تدريب لمجموعة ازدهار، مستشارة دولية مع جمعيات الاعمال. السيدة جالبرت اختصاص في تقديم الاستشارات التقنية التي تساعد في تطوير البرامج التدريبية لدعم ساسة تقديم الفائدة للمشاريع الصغيرة و المتوسطة الحجم SME's وذلك عن طريق تقوية مهارات جمعيات الاعمال.
خلال الـ 20 سنة الماضية د. جالبرت كانت مستشارة في 37 بلد ولقد كانت عضو مؤسس في جمعية السيدات الرائدات في النيبال (WEAN) ، مؤسسة القديس بيتسبرغ للفنانون المنتجون – روسيا / وعدد من الجمعيات الأخرى. ان الهدف الرئيسي للدكتورة جالبرت هو تشجيع اقتصاد ذاتي عن طريق العمل الحر.

Training Event Evaluation Survey

Event: _____

Date of Survey: _____

Group No: _____

A. How useful and relevant did you find this training to your work?

1 - not useful at all, highly irrelevant	2 - a little useful, somewhat relevant	3 - useful and relevant	4 - very useful and highly relevant
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B. What was your opinion of the quality of instruction?

1 – poor quality	2 – average quality	3 – good quality	4 - excellent quality
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C. What was your overall assessment of this training?

1 – poor	2 - average	3 - good	4 - excellent
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D. What was the most important or useful lesson you learned during this training, and why?

E. What was the least important or least useful lesson you learned during this training, and why?

F. What additional training do you believe is necessary for you and your colleagues?

ADDENDUMS

PowerPoint Slides

For the participants workbook select and print slides in an abbreviated version. I usually use the “6 Slides Per Page” option.