

PN-ACE-458

STRATEGIC PLANNING FOR ENTERPRISES

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Capital Markets Development Project in Armenia
Contract Number EPE-I-00-95 00043-00
Task Order Number No 11

Strategic Planning



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Strategic Planning: What is It?

- Development of a plan for understanding and dealing with competitors

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STRATEGIC PLANNING

- (1) We need to explain what strategic planning IS, but should start that explanation with what it IS NOT. It is not synonymous with the commonly used term *long-range planning*.
- (2) Strategic planning is the development of a plan for understanding and dealing with competitors. Specifically, if we are planning for our company, we are looking for those factors of competition which will create advantages for us in the marketplace.

Strategic Planning: What is It?

- Development of a plan for understanding and dealing with competitors
- The procedure of qualifying and quantifying the company's objectives.

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Strategic Planning: What is It?

- Development of a plan for understanding and dealing with competitors
- The procedure of qualifying and quantifying the company's objectives
 - Fixed asset acquisitions

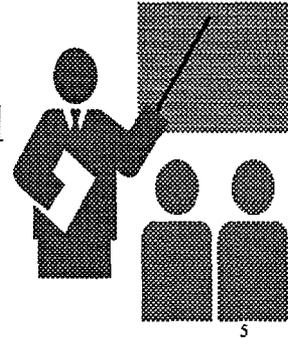
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(3) Strategic planning is the procedure of qualifying and quantifying the company's objectives, starting with the philosophy of the business and its personnel

(4) It takes into account major fixed asset acquisitions – land, buildings, equipment would be examples

Strategic Planning: What is It?

- **Development of a plan for understanding and dealing with competitors**
- **The procedure of qualifying and quantifying the company's objectives**
 - Fixed asset acquisitions
 - Training of personnel



Strategic Planning: What is It?

- **Development of a plan for understanding and dealing with competitors**
- **The procedure of qualifying and quantifying the company's objectives**
 - Fixed asset acquisitions
 - Training of personnel
 - Additional (or fewer) people

(5) It takes into account the need for training of personnel

(6) It takes into account the need for additional (or fewer) people

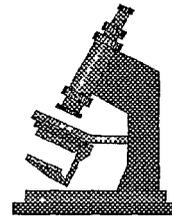
Strategic Planning: What is It?

- **Development of a plan for understanding and dealing with competitors**
- **The procedure of qualifying and quantifying the company's objectives**
 - **Fixed asset acquisitions**
 - **Training of personnel**
 - **Additional (or fewer) people**
 - **Requirement for funds**

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Strategic Planning: What is It?

- **Development of a plan for understanding and dealing with competitors**
- **The procedure of qualifying and quantifying the company's objectives**
 - **Fixed asset acquisitions**
 - **Training of personnel**
 - **Additional (or fewer) people**
 - **Requirement for funds**
- **Must be a true self-examination**



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(7) It takes into account the requirement for funds to allow the company to achieve its objectives

(8) It is not effective unless it is a true self-examination and analysis of the company's strengths and weaknesses. The business strategy requires a careful look not only at the company but also at the customers and the competitors

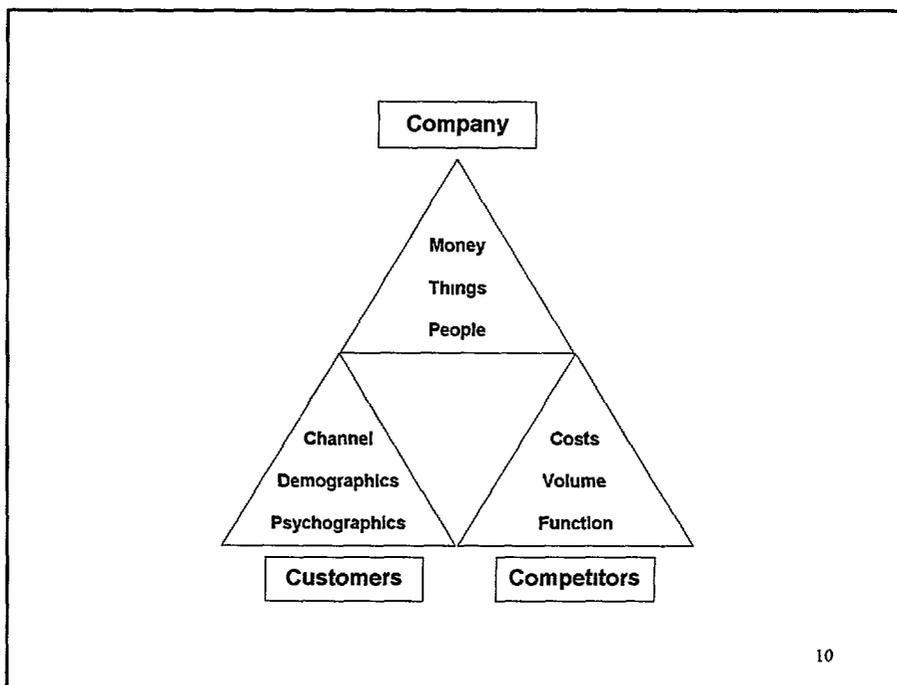


Что такое "стратегия"?

Стратегия это набор принципов для принятия решения которыми организация руководствуется в своей деятельности

Существуют четыре группы принципов или четыре области применения стратегии

- 1) оценка результатов деятельности фирмы в настоящем и в перспективе
- 2) построение отношений фирмы с ее внешней средой (*стратегия бизнеса*) -
 - какие виды продукции (услуг) и технологии следует разрабатывать
 - куда и кому сбывать продукцию (услуги)
 - каким образом добиться превосходства над конкурентами
- 3) определение отношения внутри организации (*организационная концепция*)
- 4) принципы по которым фирма ведет свою повседневную деятельность (*основные оперативные приемы*)



(9) It is now time for Vitaly Nishanov to enter into the discussion with a look at what is involved with the strategic planning process

[Vitaly will explain four principles involved in developing a strategy (a) Evaluating current and future activities, (b) Establishing company relations with external environment, (c) Recognizing relationships within the company, and (d) Establishing rules and procedures for everyday activities]

(10) In English, we call these *The Three C's of Business Strategy* Customers, Competitors, and Company When considering the customer it is necessary to focus on three main factors (The order of words here on the slide is simply determined by the length of the words [in English] so that the text fits better into the triangle)

Channel refers to where the customer buys And we have to get our products to those places as efficiently as possible **Demographics** refers to the customer's age, income, education, race, gender, etc **Psychographics** refers to why the customer is a customer, why he or she buys, what the "hot button" is, what the buying motive is

Without an understanding of the customer, any attempt at planning will be only partially successful, and any attempt at understanding competitors will be useless By definition, a competitor is one who is trying to win the same prize you are In business, the prize is the customer Again, we have three majors factors to consider

What are the competitors' **costs** of doing business? Do they have manufacturing advantages or distribution advantages? How much business (**volume**) is the competitor doing? Is this business that our company could have or is it in targeted niches that are really not suited for our company? What advantages (or disadvantages) accrue because of this volume? Describing the **function** of the competitors' products or services is another way of answering the question, "What need does this meet?" Here the primary question is not, "How does the product function?" but is, "What does it do for the user?"

The strategic planning must also reflect on the limitations of the company Where will the **money** come from? Do we have the **things** (assets, capital equipment) necessary for the business we are in? What additional **things** must we have to accomplish our objectives? What are our **people** capable of accomplishing? Are we hindered by the **people** we have? What **people** do we need?

Strategic Planning: Benefits

- Participatory, open forum



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Strategic Planning: Benefits

- Participatory, open forum
- Morale is enhanced



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(11) All sectors of the company and their key representatives participate in an open forum so that a cohesive strategy develops and everyone's concerns have been expressed and considered

(12) Because of the participatory nature of strategic planning, staff morale is enhanced and everyone is clearly addressing the key objectives of the company

Strategic Planning: Benefits

- Participatory, open forum
- Morale is enhanced
- Minimizes wasteful spending



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Консультационная фирма Профессионал менеджер

Синергизм или $2+2=5$

Смысл концепции синергизма состоит в том что *целое больше суммы его частей*. Другими словами суммарная прибыль от всех капиталовложений фирмы выше чем сумма прибыли отдельных ее подразделений

Различают четыре возможные типы синергизма

- **Маркетинговый синергизм** когда один продукт или услуга оддерживает стимулирует продажи одного или более других продуктов или услуг
- **Синергизм издержек** когда два или более вида продукта (услуг) могут быть разработаны одной и той же группой инженеров произведены на одном и том же оборудовании распределены через одни и те же каналы и проданы теми же продавцами (Применим в любых сферах деятельности организации)
- **Технологический синергизм** предполагает полное или частичное использование технологии при производстве новой продукции
- **Управленческий синергизм** связан с одной стороны с передачей знания (умений) от менеджера к подчиненным а с другой стороны с возможностью полноценной замены при необходимости одним менеджером другого

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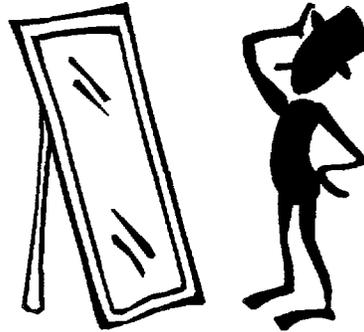
(13) The process results in effective employment of existing company assets, vastly minimizing wasteful spending. That is, the staff takes "ownership" of the plan because of their active involvement.

(14) Time for Vitaly again. He will focus on the synergy that develops in the strategic planning process.

[Vitaly's focus here is that "the whole is greater than the sum of its parts." He discusses the synergy involved with marketing, costs, technology, and management.]

Internal Analysis

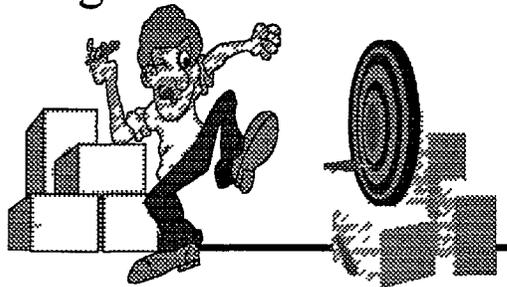
- Must be candid and truthful appraisal of the company's strengths and weaknesses.



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Internal Analysis

- Must be candid and truthful appraisal of the company's strengths and weaknesses
- Cannot ignore weaknesses



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(15) The internal analysis is the most important part of the process, the foundation. To be successful this must be a candid and truthful analysis of the company's strengths and weaknesses.

(16) The planning will be a failure if personnel involved believe that there are no weaknesses and, therefore, do not develop strategies to deal effectively with problems. Every company has strengths and every company has weaknesses – at least relative to the competition. If the planning process reveals weaknesses, but they are ignored and swept under the rug, then no good will have come out of the analysis.

Internal Analysis

- **Must be candid and truthful appraisal of the company's strengths and weaknesses**
- **Cannot ignore weaknesses**
- **Comparing the company to its principal competitors is essential**

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Internal Analysis: Questions to Answer

- **What is driving competition in our industry?**

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(17) Comparing the company to its competitors is essential. The company does not – and cannot – operate in a vacuum.

(18) The company has to answer four main questions during the internal analysis. The first: What is driving competition in our industry?

Internal Analysis: Questions to Answer

- What is driving competition in our industry?
- What actions are competitors likely to take, and what is the best way to respond?

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Internal Analysis: Questions to Answer

- What is driving competition in our industry?
- What actions are competitors likely to take, and what is the best way to respond?
- How will our industry evolve?

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(19) What actions are competitors likely to take, and what is the best way to respond? Again, the company cannot operate in a vacuum

(20) How will our industry evolve? It will evolve, and the company should have an impact on the evolution

Internal Analysis: Questions to Answer

- What is driving competition in our industry?
- What actions are competitors likely to take, and what is the best way to respond?
- How will our industry evolve?
- How can the firm be best positioned to compete in the long run?

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Evolutionary Process of an Industry

- **Introduction**
- **Growth**
- **Maturity**
- **Decline**

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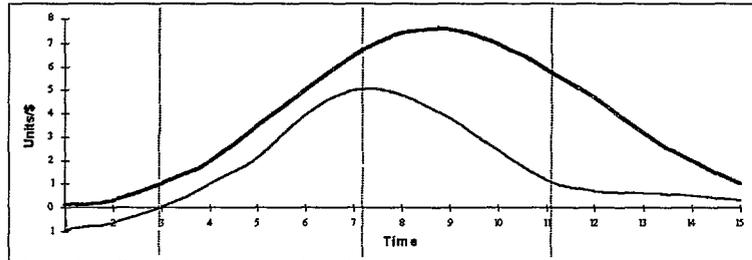
22

(21) How can the firm be best positioned to compete in the long run? We need to break the elements of the competitive environment into simple components, and then we need to find those components that 1) are critical to our customers and 2) are areas where our company has or can obtain superiority based upon the resources available

(22) There is an evolutionary process to industry. The theory is that an industry passes through four phases: introduction, growth, maturity, and decline. The **introductory phase** reflects the problem of overcoming buyer resistance (at switching products), this is followed by rapid **growth** until it reaches **maturity** with maximum penetration having been achieved. Then the companies become victims of their own success as substitute products appear.



Стратегии и жизненный цикл товара (PLC)



Стадии жизненного цикла товара				
Докоммерческая	Восход	Рост	Зрелость	Закат
Основные стратегии				
Инновации	Проникновения	Продвижения	Обороны	Ухода

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Пути реализации базовых стратегий, связанных с PLC

Инновации	Проникновения	Продвижения	Обороны	Ухода
Исследование и создание нового продукта/сервиса	Установление отношений с надежными поставщиками	Исследование и разработка конкурентоспособных инноваций для выпускаемых товаров	Сокращение производственных и маркетинговых издержек для борьбы со снижением прибыли	Сокращение производства и продаж
Предсказание будущих продаж и ключевых тенденций	Разработка специального финансового плана на период отрицательного денежного потока (cash flow)	Исследование экономических показателей производства	Изучение возможности продления жизненного цикла продукта за счет его улучшения	Анализ и переоценка имеющихся запасов
Проведение маркетинговых тестов	Повышение производительности и схем маркетинговых операций	Изучение конкурентов	Акцент на сервис клиентов	Сокращение и перераспределение персонала
Набор и подготовка персонала	Прогнозирование конкурентов	Создание системы фирменных предпочтений для постоянных покупателей	Заполнение пустующих сегментов рынка	Прекращение расходов на отток клиентов (rate of attrition) продаж по себестоимости
				Окончание планов по производству и реализации

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(23 and 24) Vitaly will now go through a more detailed discussion of the evolution of an industry or product, including different strategies used at different stages of evolution

[In slide #23, Vitaly discusses the four phases of evolution of a product or industry introduction, growth, maturity, and decline In slide #24, he discusses the various strategies appropriate for the different phases of evolution]

Five Competitive Forces

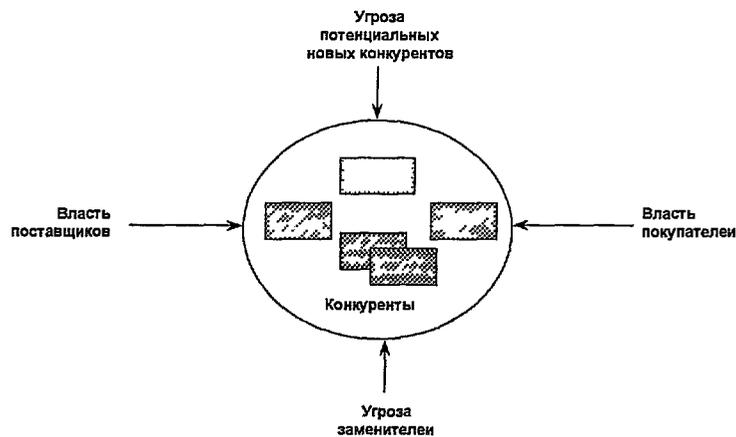
- Threat of entry
- Threat of substitution
- Bargaining power of buyers
- Bargaining power of suppliers
- Rivalry among current competitors

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Консультационная фирма Профессионал менеджер

Пять сил конкуренции



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(25) There are five major competitive forces You can read them on the screen just as well I can We will examine them individually after a look at them graphically

(26) Vitaly

[This is simply a graphic representation of the five competitive forces and their interactions]

Threat of Entry

- Economies of scale

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Threat of Entry

- Economies of scale
- Product differentiation

28

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(27) **Threat of Entry** New entrants bring new capacity and possibly substantial resources in their effort to gain a share of the market. It is also likely that they bring downward competitive price pressure. The threat of entry depends upon barriers that exist. The first one is **economies of scale**. This refers to large existing facilities that would have distinct advantages because of low unit costs which forces a new entrant to come into the market at a significant level (low prices) in order to compete.

(28) **Product differentiation** refers to what is called "brand loyalty" developed over time by users. They have a general reluctance to change – because they are satisfied. This forces large expenditures by new entrants on advertising and public awareness programs in order to have a chance to compete.

Threat of Entry

- Economies of scale
- Product differentiation
- Capital requirements



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Threat of Entry

- Economies of scale
- Product differentiation
- Capital requirements
- Switching costs

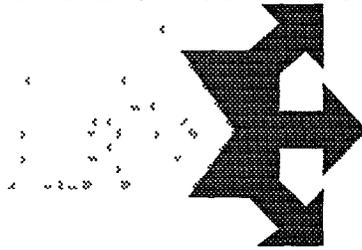
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(29) New entrants into some industries are discouraged by excessive **capital requirements** (the automobile industry is an excellent example) That is not the case in many industries, and a new entrant may become a competitor by acquiring an existing company Under those conditions, there is a new competitor overnight

(30) **Switching costs** refer to costs to customers – retraining and equipment costs, for example -- if they switch to a new product To compete, a new entrant will have to offer significant incentives to prospective customers to get them to switch

Threat of Entry

- Economies of scale
- Product differentiation
- Capital requirements
- Switching costs
- Access to distribution channels



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Threat of Entry

- Economies of scale
- Product differentiation
- Capital requirements
- Switching costs
- Access to distribution channels
- Cost disadvantages independent of scale

32

(31) **Access to distribution channels** refers to how producers are going to get their products or services to the customer. New entrants will likely be forced to offer price reductions to distribution channels -- retail stores, for example -- to get them to offer their products and give them decent exposure.

(32) **Cost disadvantages independent of scale** refers to the fact that existing companies may enjoy "permanent" cost advantages over new entrants regarding such things as proprietary product knowledge, long-term favorable contracts for raw materials, favorable locations, government subsidies, and the long learning curve.

Threat of Substitution

- **Somebody comes along with another product that can perform the same function and offers it at a lower price.**
 - Calculators
 - Watches
 - Textiles
 - Sugar substitutes

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Bargaining Power of Buyers

- **Very large firms are often able to bargain for extremely preferential pricing.**

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(33) Substitutes can become a thorn in the side of companies just as they begin to achieve profits and market share. We have cited only four simple examples here: 1) Small, hand-held calculators can do as much as early room-sized computers. 2) If we are concerned with knowing the correct time, inexpensive digital watches do as good or a better job than the wind-up kinds. (Some people are more interested in watches as jewelry, so that function is different from the timekeeping one.) 3) We have seen new textiles invented over the years. 4) Sugar substitutes have been around for many years. They not only substitute for sugar (or corn syrup, which is also a sugar substitute) but now there is considerable substituting of the substitutes.

(34) Very large firms are often able to bargain for extremely preferential pricing from their suppliers. This is a fact of life with which the smaller company must contend. The supplier may make only very little, if any, money from the sale to the large company, but they will keep their facilities up and running and keep their costs low. Their other customers end up paying higher prices to make up for the lower profits on the large orders.

Bargaining Power of Suppliers

- A supplier group is powerful if:
 - it is dominated by a few companies
 - it is more concentrated than the industry to which it sells
 - it does not have to contend with substitute products
 - the supplier's product is crucial to the customer
 - the industry to which it sells is not important to the supplier

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Rivalry Among Current Competitors

- Takes on many forms



36

(35) Sometimes suppliers have factors in their favor over buyers of their products. A supplier group is powerful if it is dominated by a few companies, it is more concentrated than the industry to which it sells, it does not have to contend with substitute products, the supplier's product is crucial to the customer, the industry to which it sells is not important to the supplier. The expression, "Take it or leave it" comes to mind.

(36) The intensity of rivalry influences prices as well as costs of competing in such areas as physical plant procurement, product development, advertising, and sales force.

Rivalry Among Current Competitors

- Takes on many forms
- Analyze what competitors will do under various scenarios (Comparable to a sports team preparing for its competition)

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Rivalry Among Current Competitors

- Takes on many forms
- Analyze what competitors will do under various scenarios (Comparable to a sports team preparing for its competition)
- Every industry is unique and has its own unique structure.

38

(37) Understanding the five-forces framework does not eliminate the need for creativity in finding new ways of competing in an industry. Instead, it directs managers' creative energies toward those aspects of industry structure that are most important to long-run profitability.

(38) Every industry is unique and has its own unique structure. The five-forces framework allows a firm to see through the complexity and pinpoint those factors that are critical to competition in its industry, as well as to identify strategic innovations that would most improve the industry's – and its own – profitability.

Rivalry Among Current Competitors

- Takes on many forms
- Analyze what competitors will do under various scenarios (Comparable to a sports team preparing for its competition)
- Every industry is unique and has its own unique structure
- Industries evolve

39

Three Strategies to Deal with the Five Competitive Forces

- Cost leadership
- Differentiation
- Focus

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(39) If the five competitive forces remain static, then competitive strategy would rest heavily on picking the right industry and understanding the five forces better than the competitors. The strength of the five forces vary from industry to industry, and can change as the industry evolves. In addition, firms can influence the five forces and shift the rules of competition in their industry.

(40) There are three broad strategies to deal with the five competitive forces: cost leadership, differentiation, and focus.

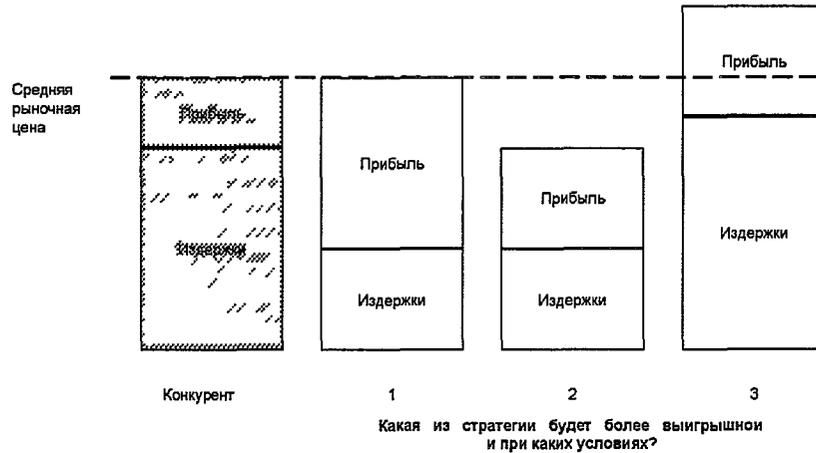
Cost leadership is perhaps the clearest to understand. In it, a firm sets out to become *the* low-cost producer in its industry. If a firm can achieve and sustain cost leadership, then it will be an above-average performer in its industry provided it can command prices at or near the industry average.

In a **differentiation** strategy, a firm seeks to be unique in its industry in ways that are widely valued by buyers. It selects one or more attributes that many buyers in an industry view as important, and uniquely positions itself to meet those needs. It is rewarded for its uniqueness with a premium price. An example is Mercedes automobiles.

In a **focus** strategy, a firm targets special buyers, a particular geographic market, or a particular product or production process.



Портеровские стратегии конкуренции (III) Цены, Издержки, Прибыль



External Factors

- **Conditions or events that are beyond the company's control, but attempts should be made to anticipate them.**
 - **Elections**
 - **Governmental policy changes**
 - **Tax changes**
 - **Technological changes**

(41) Vitaly will now use some drawings to help us understand cost leadership and product differentiation

[This slide is used to clearly show how costs, prices, and profits are related Graph #1 indicates how lowering costs, but maintaining the normal price, results in a greater profit per unit Graph #2 indicates how lowering costs allows us to reduce unit prices and secure a greater share of the market, especially if the buyers are price-driven Graph #3 indicates that product differentiation – building a product in which the buyers perceive a greater value – allows us to charge a higher price as a result of higher costs, but maintains an acceptable profit margin]

(42) The strategic planning process should include enough people, with different disciplines, to increase the likelihood that external factors will not be overlooked Examples of these events that occur beyond the company's control include elections, tax changes, and technological changes

Strategies should be developed to deal with conditions no matter what person or issue wins the election

Possible changes in governmental policies and regulations should be monitored

Tax planning is vital Overlooking a pending modification in the levying of taxes can cut into a company's profits

People without a "high-tech" background are probably not going to know about pending technological developments which could have a major impact on a company

Market Analysis

- **This is fundamental and involves examination of the overall industry, the company's position in the industry, and a survey of the customer base to determine if their needs are being met and, if not, how they can be.**

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Results of the Strategic Planning Process

- **The most important result will be a synergy that evolves allowing everyone to work toward common goals.**
- **A Business Plan would follow.**

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(43) Market analysis is fundamental and involves examination of the overall industry, the company's position in the industry, and a survey of the customer base to determine if their needs are being met and, if not, how they can be

(44) As a result of a successful strategic planning process, a synergy develops allowing everyone to work toward common goals. After strategic planning, the next activity is the writing of a business plan. The writing of a business plan will be covered in a future seminar.



Вопросы для SWOT-анализа

Сила (Достоинства)

В чем состоят наши отличительные способности (core competencies)?

Что есть уникального в том, что мы делаем?

Чем мы можем гордиться?

Возможности

Как могут помочь нам изменения в технологиях, производстве?

В чем из того, что мы делаем, будут нуждаться наши клиенты в будущем?

Что говорят наши клиенты о своих проблемах?

Слабость (Недостатки)

Что мы не можем делать хорошо?

Что в нашей компании требует большего внимания?

Что тормозит нас?

Угрозы

Что может угрожать существованию нашей компании?

Что в окружающей среде могло бы измениться и тем самым нанести нам какой-нибудь ущерб?

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Стратегические результаты SWOT анализа

Сила (Достоинства)

Что мы можем сделать, чтобы получить из наших достоинств наибольшие преимущества?

Возможности

Находятся ли конкуренты в лучшей позиции для получения преимуществ исходя из данных возможностей?

Какие возможности соответствуют нашим достоинствам?

Слабость (Недостатки)

Почему мы до сих пор не избавились от наших недостатков?

Что следовало бы предпринять, чтобы избавиться от них?

Угрозы

Что мы можем сделать, чтобы минимизировать угрозы?

Можно ли угрозы превратить в "возможности"?

46

(45 and 46) In a short time, we will be filling out some forms which you will be using when you assist companies with their strategic planning. You will hear and read the term "SWOT Analysis." S = Strengths, W = Weaknesses, O = Opportunities, and T = Threats. Vitaly will now take us through an exercise designed to help us understand how these terms are used to perform a vital part of the strategic planning process.

[Vitaly will model the behavior we expect from the participants when we move along to the SWOT analysis and other work involving the forms we are about to distribute.]

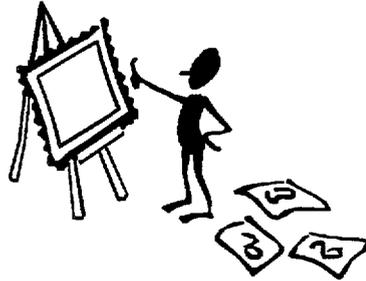
Steps in Strategic Planning

- Describe the way the industry functions from raw materials to final consumers.
- Complete the SWOT analysis.
- Complete the Strategic Factors Analysis.
- Complete the Thirty Questions Sheet.
- Anticipate changes by competitors and customers.
- Create a plan of action.

(47) We have some handouts here to help you with strategic planning activities. We will discuss them at length in order that everyone clearly understand how they are to be used.

WRITING
A
BUSINESS
PLAN

Writing a Business Plan



1

Three Functions of a Business Plan

- **A way to develop ideas about how to conduct the business.**
“Make mistakes on paper.”
- **Retrospective tool**
- **Raise money**

2

Business Plan Guide

(2) Introduction A business plan has three functions (1) It is a *plan* to develop ideas about how the business should be conducted. It is a chance to refine strategies and “make mistakes on paper” rather than in the real world. (2) It is a retrospective tool, against which the company’s actual performance over time can be assessed. On a periodic basis, the plan should be examined to see where and even why the company strayed, whether that straying was helpful or harmful, and how the business should operate in the future. (3) A business plan can be written to raise money.

A business plan is a hybrid document -- part pragmatic projection and part sales tool.

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I. Table of Contents

I Table of Contents	VII Management and Organization
II Executive Summary	VIII Major Milestones or Benchmarks
III General Company Description	IX Structure and Capitalization
IV Products and Services	X Financial Plan
V Marketing Plan	XI Attachments to Business Plan
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(3) A business plan is a hybrid document – part pragmatic projection and part sales tool
Information in it must be accurate, yet it must convey a sense of optimism and excitement
Risks must be acknowledged, but not dwelled upon

(4) I. Table of Contents Page numbers are not necessary Divide plan into sections, not chapters It can include the following

- I Table of Contents
- II Executive Summary
- III General Company Description
- IV Products and Services
- V Marketing Plan
- VI Operational Plan
- VII Management and Organization
- VIII Major Milestones or Benchmarks
- IX Structure and Capitalization
- X Financial Plan
- XI Attachments to the Business Plan
 - Management resumes
 - Competitive Analysis
 - Projection of Sales by Market Line
 - Product Line Profit Analysis

II. Executive Summary

- **Capsulized version of the entire plan written after plan has been completed.**
- **Offers quick understanding, but generates immediate interest.**
- **Provides highlights of plan on a section by section basis.**
- **Two pages is about right length.**

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III General Company Description

- **Present fundamental activities and nature of company**
- **Customer base**
- **Location**
- **Stage of development of company and products**
- **Business objectives**

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(5) II Executive Summary This is a capsulized version of the entire plan. It must afford the reviewer a good understanding of what will be presented in greater detail throughout the plan. The executive summary appears at the beginning, but is written after the plan has been completed. It offers a quick understanding, but needs to succeed in generating the reviewer's immediate interest. The tone should be businesslike and should convey a sense of excitement and importance, but do not get carried away with one's own hype. It is effective to provide highlights of the business plan on a section-by-section basis. The summary starts with few sentences about the basic nature of the company and its current stage of development. Then focus on functional areas, including product profile, marketing plan, operational plan, and financial plan, conveying only the basic thoughts and highlights of each. It could include a brief sales and profit history along with projections for the same. A discussion of break-even point and return on equity possible, too. This gives the reader an excellent feel for detailed information to follow. A personal note from management is possible concerning an assessment of business history and feelings about the future. Citing benchmarks is a good idea.

(6) III General Company Description This should be no more than a few pages. Present the fundamental activities and nature of the company. Address such questions as: Is company a manufacturer, retailer, or service business? What customers will it serve? What is it providing its customer base and how? Where is it located? Where will it do business? What stage in development has the company reached? Has it developed a product line? Is it marketing its products? Is it expanding its scale of activity?

Articulate business objectives, including seeking a certain level of sales or geographic distribution, whether it plans to become publicly traded or an acquisition candidate, etc

IV. Products and Services

- **Physical description**
- **Use and appeal**
- **Stage of development**

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V. Marketing Plan

- ***Market Definition and Opportunity:***
Establish demand.
Define target-market segments.
Present general industry background.
**Describe market in terms of desired
market attributes, demographics,
and psychographics.**

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(7) IV Products and Services

- * *Physical Description* Include photograph, drawing, brochure, if applicable With a service business, a diagram may help to convey what is being provided
- * *Use and Appeal* Comment on nature of its various uses and what constitutes its appeal Emphasize unique features and establish potential of the venture
- * *Stage of Development* How have the company's products and services evolved to their present state? Comments as to "readiness for market" are useful (Include details about research and development in the operational plan) This part of the plan should convey as concisely as possible the nature of the business offerings Sometimes a prototype, sample, or demonstration will be helpful Sometimes it is helpful to provide reviewer with a list of experts or prior users who are familiar with the products or services and will comment favorably on them (Such testimonials may be included in letter or report form in an appendix)

(8) V Marketing Plan The very important marketing section explains how the company intends to manipulate and react to market conditions in order to generate sales The marketing plan should be both interesting and thought provoking The plan cannot simply explain a concept, it must sell the company as an attractive investment opportunity, a good credit risk, or a valued vendor of a product or service The marketing plan is written for a wide variety of readers

- * *Market Definition and Opportunity* Must establish demand for the product or service Should define market and the opportunity this market represents Should define overall market, primary and secondary target-market segments, and the importance and nature of these segments Present general industry background, including growth or lack of growth Might describe the market in terms of desired market attributes, demographics, and psychographics Will relative importance of a market segment shift over time?

V. Marketing Plan

- ***Competition and Other Influences:***
Describe competition and its impact.
Mention government regulations.
Cite future sources of competition.
Acknowledge changing character of competition.

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V. Marketing Plan

- ***Marketing Strategy:***
Sales and Distribution Strategy
Pricing Strategy
Advertising, Public Relations, and Promotion
Site Analysis
Related Budgets
Future Marketing Activities
- ***Market Research:***

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- * **(9) *Competition and Other Influences*** Describe the degree of competition present and impact it is likely to have on the enterprise. Also mention other external forces, such as government regulations. Identify specific businesses, products, or services that will offer competition. If few, it is appropriate to offer a profile of each competitor, including relative strengths and weaknesses and the likely impact each will have on the company. It is possible to depict this information in graphic or tabular form. Future sources of competition are to be considered and cited. Acknowledging changing character of competition and how these changes would affect the proposed enterprise are good points to include in the business plan.
- * **(10) *Marketing Strategy*** Explain how the business will manipulate its marketing tools. Might embrace such factors as distribution, advertising and promotion, pricing, selling incentives, and location analysis. Address the schedule of these activities. Focus attention on each salient marketing tool a company has at its disposal.
 - *Sales and Distribution Strategy* Explain mechanisms and vehicles used to get products or services to customers. Will the company employ its own sales force or will dealers, distributors, or jobbers be used? Describe any special skills needed for sales force. Outline specific selling procedures to be used.
 - *Pricing Strategy* General pricing structure and rationale should be provided. Policies regarding discounting and price changes should be addressed.
 - *Advertising, Public Relations, and Promotion* Focus on concept and creative content of the communications campaign, vehicles used (electronic media, print media, direct mail, e.g.), and extent to which each will be used.
 - *Site Analysis* Address demographics of surrounding population, accessibility, visibility, and cost. Attachment may include pictures.
 - *Related Budgets* Pie charts, graphs, tables, and other graphics may be used to present how marketing efforts will be organized and how company's resources will be allocated among various marketing tools.
 - *Future Marketing Activities* Explain sales strategies contemplated to perpetuate growth. Not much detail is necessary here, but addressing the concept is a sound idea.
- * *Market Research* This can be formal or informal, and can assist the entrepreneur and reviewer in an understanding of the marketplace. This research can help formulate marketing strategy and facilitate contact with respondents who had positive reactions to the product or service.

V. Marketing Plan

- *Sales Forecasts:*

Sales by period

Sales by products or services

Sales by customer group

Market share

- *Support Material*

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V. Marketing Plan

- *Key tests of Marketing Plan*

Have a need and market been clearly identified?

Has a clear, persuasive case been made as to how sales will be generated?

Have all relevant factors been introduced in a manner that is objective, but also in a way that will inspire confidence on the part of the reviewer?

Does this section serve as a sound basis for the implementation of a marketing strategy?

Is the section readable and interesting?

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- * **(11) Sales Forecasts** Detailed financial projections are presented in the financial section, but are often useful here as well. Possible inclusions are projected sales growth, projected market share, sales by period, sales by product or service, and sales by customer group
 - *Sales by period* Patterns such as seasonability are addressed here. These may be depicted in graph or tabular form, but narrative should be included explaining rationale. Multiple sales forecasts are possible, including conservative, "most likely," and optimistic, e.g. Be realistic
 - *Sales by Products or Services* This breakdown is useful in communicating the relative importance of the company's products. It also serves to explain priorities and manners by which the company will allocate resources. It is often appropriate to convey this information graphically
 - *Sales by Customer Group* Documenting these sources with contracts or letters of intent will show greater credibility
 - *Market Share* This measure becomes significant after carefully defining relevant market and level of competition
- * *Support Material* There is danger in presenting too much material in the marketing section, so be careful. However, attachments may include such things as letters of intent, letters of support, flattering articles and reviews, brochures, artists' renderings, and industry studies
- * **(12) Key Tests of Marketing Plan**
 - Have a need and market been clearly identified?
 - Has a clear, persuasive case been made as to how sales will be generated?
 - Have all relevant factors been introduced in a manner that is objective, but also in a way that will inspire confidence on the part of the reviewer?
 - Does this section serve as a sound basis for the implementation of a marketing strategy?
 - Is the section readable and interesting?

VI. Operational Plan

- ***Product Development:***

Important to communicate development efforts to further company's products.

Sometimes the focus is on process rather than product.

Present technical team.

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VI. Operational Plan

- ***Manufacturing:***

Examine in terms of resources, processes, and output.

Profile the facility.

Discuss labor requirements (organizational chart OK here).

Use illustration or flowchart to show production process.

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(13) VI Operational Plan

- * *Product Development* It is important to communicate development efforts to further company's products. Sometimes the focus is on manufacturing process rather than the end product. (Even a company manufacturing "low tech" products may use "high tech" manufacturing processes.) If a gap exists between an idea or design and the actual product, the plan must demonstrate explicitly as possible how it will be bridged. Do not make the business plan a scientific or research treatise, present development strategy in basic terms. Presenting technical team instead of research itself is often a good idea, as their past accomplishments are more easily understood by the reviewer.
- * **(14)** *Manufacturing* Examine this activity in terms of resources, processes, and output. Resources include manufacturing facilities, machinery, equipment, materials and related assets, and labor. Capital will be used in acquisition of tangible assets, so comment on sources of the assets, their nature, the role they will play in production, and their capabilities and constraints. Profile the facility that will be used, including comments about size, location, and related specifications – clearance, loading docks, and proximity to rail outlets and airports. Mention sources of raw materials or components, availability, price volatility, and key supplier relationships. A discussion of labor requirements is essential, including general background and special requirements. Sometimes an organizational chart fits in this section as well as in the section devoted to personnel and organization. Consider an illustration or flow chart to discuss production process.

VI. Operational Plan

- ***Manufacturing: (continued)***

Discuss labor-intensive vs. automation.

In-house vs. contracted out.

Plant capacity and limiting factors.

Quality control plans.

Project capital requirements.

Impact of growth on operations.

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VI. Operational Plan

- ***Service and Support:***

Could be critical part of business.

In-house or contract out?

**Can provide for continuing
relationship with customer.**

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(15) Discuss labor-intensive route vs automation Explain what processes will be done in-house and which will be contracted out Describe manufacturing output, including plant capacity or other limiting factors Comment on quality-control plans It is very important to project capital requirements and indicate sources of funding, it is undesirable for the company to exhaust its financial resources before addressing all its needs Consider the impact of growth on operations [Non-manufacturing companies should still have a section analogous to this section Offer insight for retail or service business regarding key supplier relationships and division of responsibilities Describe resources and processes necessary to move inventory, maintain security, and serve clientele]

* **(16)** *Service and Support* This could be a critical part of the company's business success, depending upon the type of company – especially if it is involved with technical or new products Providing guidance and support after a sale is sound idea, and is often another source of income, sometimes the main source It is sometimes better to contract out service function instead of addressing it in-house The ability of the company to provide effective maintenance and service establishes continuing relationship with the customer

VI. Operational Plan

- *Other Influences:*

Productive resources

Changing technology

Customers

Regulations

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VI. Operational Plan

- *Protections:*

**Includes explanations of patents,
licenses, trademarks, and copyrights.**

What is being protected?

Impact of protection.

Documentation.

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- * **(17) Other Influences** The operational plan should sometimes focus attention on external factors or influences which can impact the company
 - *Productive Resources* Consider price and availability of labor and raw materials. Suppliers may raise prices, or political or economic instability may exist at source. Hostile labor environment might result in work stoppages or upward wage pressure.
 - *Changing Technology* The likelihood and impact of state-of-the-art technological changes need to be discussed. Competitive products might evolve that will have impact on company's operations.
 - *Customers* If the company has a dominant customer or group of customers, discuss influences emanating from the customer base.
 - *Regulation* Government guidelines, regulations, and laws may impact operations, and these influences warrant attention in the operational plan. Describe (1) the nature and source of the influence, (2) the potential impact and resulting risks or opportunities that are posed, and (3) the manner in which the company may address the influence.

- * **(18) Protections** This section would include explanations of patents, licenses, trademarks, or copyrights. This concept includes securing a license to be the exclusive distributor of a product. These protections often do not apply only to the ultimate product or service, but could include the manufacturing process itself or a single feature of a multidimensional product. Such protections can allow the company to have or maintain a competitive advantage for a period of time.
 - *What is Being Protected* Specifically define what forms of protection are being used for what product or part of a product. Explain where the company is in the process of securing protection.
 - *Impact of Protection* Describe degree of protection in terms of length of time the company will hold any competitive advantage.
 - *Documentation* It is not necessary to provide it in business plan, but it can be mentioned that an examination of legal documents, agreements, and related material is possible at the request of the reviewer.

VII. Management and Organization

- ***Management Team/Principals:***

Founding entrepreneurs

Active investors

Key employees

Directors

Advisory board

Key advisors

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VII Management and Organization

- ***Organizational Chart:***

**Usually organized either by product or
by function.**

- ***Policy and Strategy:***

Timing

Selection

Compensation

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(19) VII Management and Organization Most reviewers are reluctant to make any kind of commitment to a venture unless they are comfortable with those involved in it. Success in generating the interest of reviewers and the ultimate success of the business often depend on effective staff and organization. The entrepreneur must begin with an objective assessment of his or her personal strengths and weaknesses and an assessment of the company's requirements – then the composition of the rest of the company may be defined.

* *Management Team/Principals* It is necessary to present backgrounds of those individuals expected to play key roles in the company.

- *Founding Entrepreneurs* Include information about individuals responsible for conceptualizing, starting, and running the venture – at least in the early stages.
- *Active Investors* It is reasonable to devote attention to those who have made significant contributions of capital and who will also provide expertise and direction to the company.
- *Key Employees* These are people who are crucial to the venture, but who do not have an equity stake in it. Their commitment should be secured by some form of employment contract. Such commitments would be important to both the entrepreneur and the reviewer.
- *Directors* Directors have a formal, legal relationship with the company, and a fiduciary responsibility to it. They often contribute their services on a “part-time” basis.
- *Advisory Board* Many companies turn to advisory boards for assistance in technical, planning, marketing, operations, or other matters. The credibility of advisory board members can also add credibility to a venture.
- *Key Advisors* These have special relationships with the entrepreneurial team, but do not sit on the formal advisory board. They can include lawyers, accountants, and other consultants.

* **(20) Organizational Chart** It is important that a blueprint for the company's organizational development be clearly identified. The precise form of the organization will vary from business to business, but for the most part will be organized either by product or by function, that is, employees will be working on product *a* or product *b*, and so forth, or employees will be working in the marketing department, financial department, and so on. Some businesses will use a hybrid of the two approaches.

* *Policy and Strategy* This section should communicate the philosophy guiding the company's organization and staffing. Some factors to consider include:

- *Timing* Plan carefully how to begin or expand staffing. Create a schedule of the organization's evolution.
- *Selection* Attention to hiring standards and procedures are often appropriate in a business plan.
- *Compensation* It is usually of interest to a reviewer to see the salary structure relative to competition, benefits packages, bonus and incentive plans, profit sharing, stock ownership, and similar items – and how these compensation policies will evolve over time.

VIII Major Milestones or Benchmarks

- **Place plans and objectives into some sort of time frame.**
- **Identify major events and when they are likely to occur.**
- **Offer ambitious schedule, but one that can be met or exceeded.**

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IX. Structure and Capitalization

- ***Capital Requirements:***

Involves investigation, intuition, and luck.

Easiest regarding tangible assets.

Documentation may be included.

More difficult to project non-tangible capital requirements -- usually a function of cash flow.

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(21) VIII Major Milestones or Benchmarks. It is important to place plans and objectives into some sort of time frame. Such a framework represents both a schedule and set of goals against which progress can be measured. This section should identify major events in the enterprise's development and when they are likely to occur. Offer dates in a generic manner, not by actual calendar. Offer a schedule that is ambitious but can be met or exceeded. Select benchmarks that can be clearly defined and easily measured.

(22) IX Structure and Capitalization This section identifies the legal form of the business (e.g., joint stock company, partnership, limited liability company) and how the enterprise will be capitalized. Describe the kind of resources required and sources – past and future -- of it. The entrepreneur may have a variety of options to offer capital providers for their participation (e.g., common stock, preferred stock, bonds, convertible bonds, etc.)

* *Capital Requirements* Accurately determining an enterprise's capital requirements generally involves a combination of investigation and intuition, as well as a degree of luck in forecasting future events that will have an impact on the level of capital required. Determining requirements is easiest regarding acquisition of tangible assets such as equipment, inventory, and real estate. Documentation may or may not be included in the business plan, but the entrepreneur must go through the steps of gathering it in order to feel comfortable with projections. It is more difficult to project working and contingent capital requirements. In large part, these requirements are a function of cash flow, which will be covered in the financial plan section of the business plan.

IX. Structure and Capitalization

- *Sources of Capital:*

Is source interested in enterprise?

Determine how a source evaluates a deal before approaching that source.

Consider personalities involved.

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IX. Structure and Capitalization

- *Sources of Capital (Guidelines):*

Get an introduction.

Be selective.

Be prepared to rethink a plan.

Summary only?

Multiple sources.

Identify appropriate individuals.

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* **(23)** *Sources of Capital* The entrepreneur must research potential sources closely. An entrepreneur may waste time and resources by submitting a plan to a capital source that is not interested in specific types of enterprises or deals structured in certain ways. The entrepreneur should have at least a basic knowledge of how a particular source evaluates a deal before approaching that source. This will allow presentation of the business plan in a favorable manner. The entrepreneur should also consider the personalities involved at the source of financing, this relationship may be a long-term one and interactions will occur through difficult times as well as prosperous ones. When approaching a potential source of financing, the following guidelines are useful:

- **(24)** *Get an introduction* Arrange for an advisor such as a lawyer, accountant, banker, or broker to provide entrepreneur with a supportive introduction. Using such an intermediary helps lend credibility to the plan.
- *Be selective* Do not do a mass distribution of business plans, approach attractive sources of capital selectively and focus attention on each.
- *Be prepared to rethink a plan* Receiving consistently negative responses to the plan suggests that it has problems. Listen to the sources' objections to the plan and reevaluate it.
- *Summary* Some sources want to see only a summary of the plan in order to facilitate their preliminary evaluation.
- *Multiple Sources* With the anticipated participation of more than one source, be sure that all the sources have received the plan so that they can review it concurrently.
- *Identify appropriate individuals* The entrepreneur should identify the individuals within the financing organization with whom he or she will be having the most interaction.

X. Financial Plan

- **Purpose is to formulate projections reflecting the company's anticipated financial performance.**
- **Reliable data!**
- **Calculate more than one scenario.**
- **Review periodically and revise as necessary.**

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X. Financial Plan

- ***Assumptions:***
Present them clearly and concisely.
Most important one is sales volume.
Cost of goods sold and gross profit also important.
Cite specific sources of information.
Elevate reviewer's confidence level.

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(25) X Financial Plan The purpose of the financial section of a business plan is to formulate a credible, comprehensive set of projections reflecting the company's anticipated financial performance. If these projections are carefully prepared and convincingly supported, they become one of the most critical measures of a business's attractiveness. One cannot overemphasize the importance of reliable data. It is often advisable to calculate more than one financial scenario, even if they are not all presented in the formal document. The financial plan section should be reviewed periodically and revised if necessary, its content must be current. The financial plan must conform to the details presented in the remainder of the business plan. In general, the information that should be presented includes the following:

- * **(26) Assumptions** The set of assumptions on which projections are based should be clearly and concisely presented. Because the rest of the financial plan is an outgrowth of the assumptions, they can be considered the most integral part of this section. The most important element in all of the projections, and the one that requires the greatest degree of support, is the anticipated sales volume. The credibility of this forecast is so important that an entire section in the marketing plan may be devoted to its support. Another important assumption pertains to cost of goods sold and gross profit, and depends jointly on the cost of production or acquisition and pricing policy. In stating assumptions, it is useful to cite specific sources of information. It is impossible to eliminate uncertainty in assumptions, but the entrepreneur should try to elevate the confidence level of the reviewer regarding the company's ability to translate projections into operating reality.

X. Financial Plan

- ***Projected Income Statements:***

Prepare for 3 to 5 years, use quarterly performance.

Divide into revenues, cost of goods and services, expenses, and resulting pretax profit or loss.

Be consistent with sales volume figures.

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X. Financial Plan

- ***Projected Cash Flow Statements:***

Most critical forecast.

Many things similar to Income Statement, but several distinctions exist between them.

Show monthly for the first two years, quarterly or annually after that.

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- * **(27)** *Projected Income Statements* These should be prepared for at least three years -- typically for five years -- reflecting, usually, quarterly performance. This projection is usually divided into revenues, cost of goods or services, expenses, and resulting pretax profit or loss. It is appropriate to also show after-tax performance. A reviewer will normally scrutinize elements in the income statement as they relate to sales volume. The income statement, and particularly profit, should be consistent with potential and other limitations discussed in other sections.
- * **(28)** *Projected Cash Flow Statements* The most critical of all financial forecasts in a business plan is the cash flow projection. In many ways it is analogous to the income statement, but there are some important distinctions. Instead of revenue and expenses, a cash flow statement reflects cash actually flowing into and out of the business from all sources, including sales, the infusion of debt or equity proceeds, and the sale or liquidation of an asset. An income statement reflects depreciation because depreciation is an expense. However, depreciation does not represent a cash obligation, so it is not included in the cash flow statement. Repayment of loan principal is considered a cash obligation and is included in a cash flow statement, but it is not considered an expense, so it will not be included on an income statement. Other cash requirements, such as acquisition of equipment or payment of dividends are not considered expenses, so they will show on a cash flow statement, but not on an income statement. Cash flow statements should be shown in as great a detail as possible for the first two years. Quarterly or annual cash flows are sufficient for years three through five.

X. Financial Plan

- ***Current Balance Sheet:***

Balance sheet shows “snapshot.”

Summarizes assets, liabilities, net worth.

Calculate the following ratios:

- Liquidity ,
- Asset Management,
- Debt.

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X. Financial Plan

- ***Other Financial Projections:***

Break-even analysis.

Contribution of specific products or services to overall company performance.

Historical financial performance necessary for company looking to expand or acquire another company.

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- * **(29) Current Balance Sheet** Projected year-end balance sheets for three to five years should be included. Rather than reflecting performance over a period of time, a balance sheet allows a “snapshot” of a company’s financial strengths and weaknesses at a particular point in time. A balance sheet summarizes the company’s assets (what it owns), liabilities (what it owes), and net worth (the difference between assets and liabilities). Some of the measures typically calculated in order to assess projected or historical performance include the following:
- **Liquidity Ratios** These ratios, such as the current or quick ratios, typically compare all or some of the company’s current assets to its current liabilities. They suggest how capable the company is to meet its debt obligations in the near term.
 - **Asset Management Ratios** These ratios, such as inventory turnover and accounts receivable turnover, give a sense about how effectively a company is employing the assets at its disposal.
 - **Debt Ratios** These ratios, such as debt to equity, help place in perspective how the company is capitalized and how highly the company is leveraged. These ratios can help one understand the company’s stability and its capacity to raise further capital.
- * **(30) Other Financial Projections** A break-even analysis could prove to be a valuable addition. Also, financial summaries that reflect the contribution of specific products and services to overall company performance might be prepared. It is appropriate to include historical financial performance for an existing company looking to expand or acquire another company.

XI. Attachments to Business Plan

- **Depends on type of business.**
- **Objective is to add to reviewer's understanding and add credibility to statements in the plan.**
- **Appropriate to create index if there are a large number of documents. Include one-page summaries.**

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In Conclusion...

- **Good ideas**
- **Good businesses**
- **Good business plans**
- **The process of thinking through a business plan is key.**

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(31) XI Attachments to the Business Plan What to include as attachments to a business plan is highly dependent on the type of business, the kinds of products or services it will offer, and the complexity of the plan itself. The objective in including attachments is to add to the reviewer's understanding should he or she desire to know more than what is presented in the body of the plan, and to add credibility to statements made in the plan. If there are a large number of support documents, it could be appropriate to create an index for them, and include one-page summaries of each, letting the reviewer know that a full document will be sent on request.

(32) In Conclusion

Good ideas make good businesses, and good businesses make good business plans, but the best business plan cannot turn a bad idea into a good business. A good business plan, however, can help make a good business credible, understandable, and attractive. Writing a good business plan – and more important, thinking through a good business plan as it is written -- cannot guarantee success, but it can go a long way toward reducing the odds of failure.