



# Creating a Focused Business Plan

**A**s we discussed in Chapter 1, the business plan is the centerpiece of the planning process. It links the longer-term view of strategic planning to the tactical or annual plans for business units, functions, departments and teams, and individuals.

## Three Paths to Take

For startup companies that are in the early stages of building a business:

Business Plan → Operating and Financial Plans

For companies that have been in business and have a track record of documented performance:

Strategic Plan → Business Plan → Functional/Departmental Operating Plans

Or

Strategic Plan → Functional/Departmental Operating Plans

It's interesting to note that many functional/departmental managers have never been tasked with creating a business plan. The main reason for this is that they have primarily been tasked with focusing on their areas of function as part of an overall plan for the company. In some respects, this may be limiting for them, especially if they're asked to develop a plan for a new line of business.

The business plan will serve both the outside and inside planning and communication needs for the company. The outside value is for investors and customers to have visibility to the game plan of the company so that they can gain confidence in the company's ability to achieve its results.

## Focusing the Business Plans

It's important to identify the main focus of a business plan because it will help to determine what to include and emphasize.

Startup-focused plans identify the steps that a new business will follow to create products, services, and customers. It will use the standard topics including the company, product or service, market, forecasts, strategy, implementation milestones, management team, and financial analysis. The financial analysis includes projected sales, profit and loss, balance sheet, and cash flow—all critical aspects of creating the initial game plan.

Internally focused plans are not intended for outside investors, banks, or other third parties. They might exclude information that's not relevant to internal plans, such as the company background, ownership information, etc., while including only those areas of the essential components that apply to their key strategies and business objectives. One example of an internally focused plan is one that emphasizes operations and focuses on internal capabilities. This type of plan is more detailed on specific implementation milestones, dates, deadlines, and responsibilities of functions that support the overall business.

Growth-focused plans will emphasize the opportunities that may exist for new product lines, acquiring another business, or creating a major expansion of the existing business. Quite often, these plans are linked to financial requirements and/or investment opportunities. For example, an acquisition plan would require a complete assessment of the acquired business and projected costs of acquisition and operation on the overall financials of the current business. This is especially important if investment capital is required.

Viability-focused plans are essentially startup plans that include the essentials of the business plan presented here with emphasis on the information being presented to help determine if the new venture has the return on investment necessary to move forward.


## Essential Components of a Business Plan

The categories contained in a business plan will vary slightly based on the type and focus of the plan as mentioned above. The components referenced next can be used for both external and internal planning purposes. The operations section will provide guidance on how to convert this information into a day-to-day approach to more detailed plans needed to drive the business forward each year.

### Executive Summary: An Introduction and Overview for This Business

In this section the focus is on the foundation of the company. Relevant information presented here should include:

- Type of business and markets served.
- Date of incorporation and business structure (corporation, sole proprietorship, LLC, etc.), publicly or privately held.
- Main objectives of the business (why it's in business, what it's in business to do).
- Advantages over the competition, if applicable.
- Contact information, including web address.



### SAMPLE EXECUTIVE SUMMARY

**Introduction**  
Value Added Resources is a global consulting firm committed to helping companies increase their overall business performance by providing the resources required to solve difficult problems and meet the challenges of shifting market demand. The company serves multiple market segments, with a focus on health care.

**Objectives**

1. Provide value-added services that enhance client business performance and results.
2. Have a client retention rate of 70% by end of first year.
3. Become an established regional resource within two years of market entry.
4. Participate in community activities and provide low-cost services to small-business startups.

**Keys to Success**

- Superior customer service.

- Convenience: offer users a wide range of business services in one environment.
- Reputation: credibility, integrity, and 100% dedication.
- Seasoned consulting team.
- Maintain low overhead and expenses.

### Company Summary: Ownership and Startup Plan

For startup situations especially, this is an opportunity to showcase the background and unique skills of the founders and key managers of the company. In addition to this background information, a short description of the startup plan should be included. The depth of this summary may depend on whether or not investors or

lenders will be primary recipients of this document. This section should also include the projected amount of startup cash required for the major expenses associated with the startup period.

#### BUSINESS PURPOSE

"The purpose of business is to attract and maintain customers," concludes Peter Drucker. This concise view of why you're in business will help to focus the information included in the business plan. Ultimately, the business plan must create value for the customer as well as provide a return on investment to other stakeholders such as employees, stockholders, and investors. In addition, the information presented in the business plan will be used for more detailed planning by functional managers.



#### THE BRAIN DRAIN

Ideas for new products and services can come from a number of sources, including customer focus groups, marketing, research and development, and company employees. One company used a multi-level brainstorming meeting to encourage creativity and innovation to come up with ideas for new products. The Brain Drain made use of creative thinking techniques, subgroup design time, and poster sessions to build on the ideas. Sessions were held in several company locations, each time building on the ideas of the previous sessions. A final consolidation meeting was the last step in bringing a product idea to the drawing board to test feasibility. Several new products were developed through this process.



TOOLS

### Products and Services: Detailed Explanation of the Products and Services Mix

In this section you want to display your range of products and services and how they're positioned to serve current and future market segments. This may be done by using a matrix to show current and future plans to deliver your products and services (Exhibit 2-1). This matrix will help to organize the data presented here. This is not intended to be a marketing plan. That will come later during the detailed planning process when functional plans are prepared.

	Current Markets and Customers Served/ Expected Revenues	New Markets and Customers to Be Served/Expected Revenues
Current Products and Services		
New Products and Services		

Exhibit 2-1. Matrix for analyzing products and services mix

### Market Analysis: Market Description and How Products and Services Fit With Customer Needs

In this section it's important to gain visibility as to who your target customers are. This can be a listing by market segment. For each listing, identify the customer needs and wants that you will fulfill (Exhibit 2-2). This should provide insights into how well this fit is working. In addition, list the reasons that customers choose to buy from you or the value proposition that underpins your success as a company.

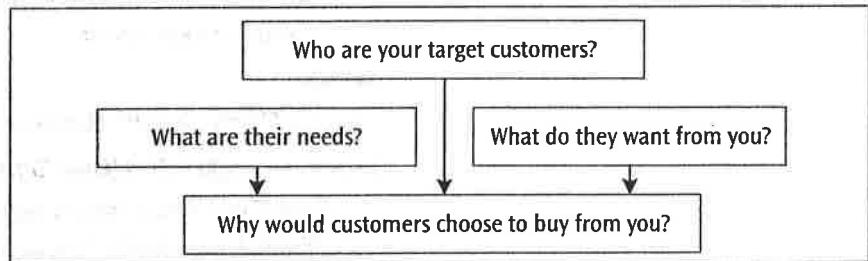


Exhibit 2-2. Analyzing customer needs that you can fulfill

### **Strategy Implementation: Major Strategies and Expected Results**

This section should contain a description of the company's high-level strategies and expected results. It would also be helpful to create a short list of competitors' strengths and weaknesses to be used in developing selling and customer strategies. The strategies should center around how to maintain and grow market share, financial objectives regarding revenues and profits, and customer satisfaction measures such as retention rates and evaluations of product/service quality and reliability.

Strategies should be created with deployment in mind. These high-level strategies will serve as a planning platform for both functional plans and deployment programs such as the Balanced Score. These programs and tools will be discussed in detail in Chapter 5.

Strategic priorities should fit into these major categories:

#### **Financial**

- **Targets:** Revenue, Gross Margin, Operating Income, Return on Net Assets (RONA)
- **Priorities include:** Meet targets for revenues, operating income, return on net assets, and earnings per share (if publicly traded)

#### **Customer**

- **Targets:** % Retained, % Market Share, % Satisfied Customers (survey results)
- **Priorities include:** Increase retention rates, increase satisfaction measures, increase market share

#### **Products and Services**

- **Targets:** Number of New Product Introductions, % Defects, Market Position
- **Priorities include:** Increase new product introductions, improve quality, and maintain industry position of first or second in every brand/product line

#### **People**

- **Priorities include:** Reduce turnover and increase retention rates

#### **Internal Capabilities (Core Capabilities)**

- **Targets:** % Processes Reengineered, % Productivity Increases
- **Priorities include:** Process management efficiency and productivity increases

The competitor analysis should include:

**What are they best at?**

- Factors enhancing their bargaining power (e.g., buyers and suppliers)
- Factors that insulate them from competition
- Greater scale of assets, market share
- Strong implementation ability for new services
- Abundance of resources and skill

**Where are they weak?**

- Factors worsening their bargaining power (e.g., buyers and suppliers)
- Factors that expose them to threats from competitors
- Smaller scale of assets, market share
- Weaker implementation ability for new services
- Lack of resources and skill
- What aspects of their business weaknesses can you leverage to drive your business strategy? This information can form the basis of a competitive strategy in which you are leveraging your strengths against the competitor's weaknesses.

**Strategy Sample**

1. Medical Device Company
2. Introduce new, differentiated products ahead of the competition
3. Defend existing products (market share, profitability)
4. Increase product quality, exceeding industry standards
5. Initiate cost reduction programs that increase margins and reduce expenses



**THE VITAL FEW**

"You see, regardless of the size of the company, no company can afford everything it would like to do. Resources have to be allocated. The essence of strategic planning is to allocate resources to those areas that have the greatest future potential." Reginald Jones, *Making Strategy Work*. The quote speaks to the real objective of the planning process: to reach those vital few strategies that can be activated and achieved in a one- to three-year period. The problem that exists in many companies is the proliferation of strategies and the danger of diluting their successful execution because of the sheer volume and resource requirements.

## Annual Operating Plan

The emphasis in this section is on the supply chain for the preparation, assembly, manufacture, and delivery of your products and services. The information presented here will again allow for more detailed planning by managers who represent the subfunctions such as engineering, purchasing, inventory management, quality control, operations/manufacturing, and logistics. The key areas to be covered are:

- **Equipment:** Describe the equipment required to run the business. This will include the value of existing equipment and projected costs of additional equipment needs.
- **Capital Asset Management:** Provide expectations regarding inventory management, days sales outstanding, and receivables/payables balance. Create a complete list of assets.
- **Materials Management:** Identify supplier requirements in terms of price, lead times, and cost. Look for opportunities to build long-term relationships with suppliers.
- **Production:** Identify production cycle times and production rates per product line. In service situations, map processes and identify opportunities to streamline. Consider the measurements of cost, quality, and speed of delivery.
- **Quality:** Provide specifications and standards that are expected to be attained in the production and use of products and services. You'll want to include customer satisfaction measurements, as well.
- **Facilities, Plant, and Office Space:** Describe the facilities and premises including the square footage and locations of each facility. It may be useful to include drawings

### Operational planning

The day-to-day implementation of policies, practices, and systems that are consistent with the mission and that support the overall company strategic objectives. The overall goal of operational planning is to provide specific information regarding company-wide imperatives such as cost reduction, cost management requirements, functional priorities, and higher-level metrics that can help guide detail planning at both the department and individual levels. As was stated earlier, alignment is the litmus test in which goals are integrated in some way at every level of the organization.

#### KEY TERM





of the building, copies of lease agreements, and/or recent real estate appraisals. The total value of the land and buildings required for business operations should be calculated, including overall worth of the bricks and mortar.

- **Cost:** Give direction to support and production and delivery units by estimating the standard cost of products and services.

### **E-Commerce Strategy: How the Company Will Maintain a Presence on the Internet**

In this section you'll explain how you'll conduct business through the Internet, if applicable. In every situation, it will be important to maintain a website to have a method of introducing the company. In addition, a description of products and services and a method of contacting key personnel at the company will provide a basic connection to the company. One opportunity to take advantage of is to use some of the information in the business plan to populate the website. If you choose to sell products and services from your website, an e-commerce section can be built in, including credit cards for payment.

### **Management Team Summary**

In this section you'll want to include each key member of the company management team, their qualifications, their accomplishments, and their commitments to the business success. This information is especially valuable for investors and customers as they determine whether they will do business with the company. This information offers a degree of credibility for the management of the company, so it should be prepared with careful details and projections of strong leadership skills.

### **Financials**

Since finance is considered by many as the language of business, this section is critical to the startup and day-to-day management of the company. The information presented here will be integrated with overall reporting of company financial results, and will provide specifics to the subfunctions of the company to set their annual goals.

The centerpieces of this information are the profit and loss/income statement and the balance sheet.

<i>Total Revenues</i>
- <i>Cost of Goods Sold</i>
<hr/>
<i>Gross Margin</i>
- <i>Operating Expenses</i>
<hr/>
<i>Income Before Taxes and Interest (IBTI)</i>
- <i>Taxes and Interest</i>
<hr/>
<i>Net Income (or Loss)</i>

Exhibit 2-3. The basic components of an income statement

<b>Assets</b>
Current Assets (receivables, inventory, cash on hand, etc.)
+ Long-Term Assets (plant and equipment)
= Total Assets
<b>Liabilities</b>
Current Liabilities (payables, short-term debt)
+ Long-Term Equity (stock, shareholder equity, etc.)
= Total Liabilities

Exhibit 2-4. The basic components of a balance sheet

## Dealing with Different Personalities

During the planning process, there will be many opportunities to share and discuss information as it's finalized into the business plan. Personal preferences and personalities will have an impact on the success of these interactions by determining how conflicts and differing points of view are resolved. There are several personality styles assessments and indicators, such as the Myers-Briggs Type Indication (MBTI), Activity Vector Analysis, and DISC.

It's advisable to engage in a discussion of similar and different styles at the senior management levels, using one of these tools as an awareness vehicle. Becoming aware of the various styles that exist in a planning team may help to encourage better cooperation and communication identifying strengths and gaps in the team. It may also help the team to recognize their diverse approaches, from big picture (Intuitive in MBTI) to detailed focus (Sensing in MBTI), and ensure that attention is given to all perspectives during the planning process.

## Functional and Departmental Plan Development

Almost every process can be viewed as a closed system in which there are inputs, a process of action, and outputs that deliver a final product. This model lends itself well to creating a planning tool and mental model for any manager to use in either high-level or tactical planning. In its most practical format, it would look like an outline of your planning effort. In the application of this model, you'll add and delete as your specific function dictates. This outline will be converted into specific measurements in Chapter 4.



### TRICKS OF THE TRADE

#### TEAM EXERCISE: THREE SYMBOLS

Ask each team member to draw three symbols on a piece of paper: a circle, a square, and a triangle. Next, ask them to rank the symbols from 1 to 3, where 1 represents their problem-solving style most and 3 the least. After the ranking is completed ask for a show of hands of who had the circle as 1. Explain that the circle represents a holistic approach to problem solving. Next ask how many had the square as 1. Explain that the square represents a focused approach to problem solving. Next, ask how many had the triangle as 1. Explain that the triangle represents an analytical approach to problem solving. The message is that this team represents a diversity of thinking and problem solving. Some may prefer to discuss the big picture first, while others will want to dive into the details immediately. And, of course, some may be comfortable with a combined approach. A successful planning team will make an effort to work with all problem-solving approaches, finding that different styles can be complementary to achieving a strong final result.

## Building Functional Plans

There are several ways to build the functional plans. In this example we will build from the framework established in Chapter 1.

### Applying the Input-Process-Output Model to Functional Plan Development

#### Inputs

- A description of the business in terms of industry focus, products and services, and markets served

**Process**

- Review each section of the business plan to identify impacts on your area of responsibility.
- Identify a supporting mission statement for your area of responsibility.
- Identify the key results that will be required to meet day-to-day operations and to help achieve the strategies and objectives of the company.
- Solidify the direction and purpose served by this business and support functions.
- Begin to develop the framework for a specific operating plan.


**Outputs**

- Sample key results areas (KRAs) for the functional plans:
  - R&D.
  - Launch new products ahead of the competition.
  - Reduce cycle times.
- Sales
  - Achieve revenue goals.
  - Create customer retention program.
- Operations
  - Meet production goals.
  - Improve customer satisfaction for on-time delivery of products and services.
- Engineering
  - Improve product and service quality.
  - Support reduction of cycle times.
- Finance
  - Provide financial analysis tools, turnaround reports, and timely information required to track and measure business performance (monthly, quarterly, annually).
- Purchasing
  - Increase supplier quality.
  - Reduce lead times for raw and finished goods.
- Human Resources
  - Ensure proper talent is acquired (right skills and motivation) to meet business plan requirements.

- Information Technology
  - Provide support for software development to meet information reporting needs.
  - Provide on-site problem-solving support via company-managed help desk.
- Safety
  - Reduce lost-time accidents.
  - Expand safety awareness programs to every department in the company.

### Sample Functional Plan Format: Focus on Part 1

The information presented in Chapter 1 regarding the development of a mission statement and the information gleaned from your business plan will provide the input for completing the first part of the functional plan. Use the following format as a guide to using the information presented in this book.

<b>FUNCTIONAL AREA</b>		
Mission Statement:		<b>TOOLS</b>
<i>Part 1</i>	■ Key Results Areas	
<i>Part 2</i>	■ Objectives ■ Maintenance ■ Improvement ■ Other	
<i>Part 3</i>	■ Organization and Human Resource Plans ■ Link to Annual Budgets	
<i>Part 4</i>	■ Performance Standards and Measurements Established	
<i>Part 5</i>	■ How Tracked	

### Integrating Plans

In most business operations, discrete functions emerge after startup that are required to run the business effectively. Each of these functions

### CREATING MOMENTUM FOR BUSINESS PLANNING

The idea of participating in a planning session often evokes visions of boredom and just plain old lack of enthusiasm. One way to create momentum for the planning session is for the company leaders to emphasize the importance of participation and that they are counting on every employee's input for the company to be successful in a given business year.



Some examples of creating momentum are: publish the planning calendar well in advance, prepare departmental managers with worksheets and planning tools, provide opportunities for brainstorming sessions to gather data and share ideas during the planning process, create updates and communications that place importance on the planning process and the end results, and use town hall meetings to create motivation and participation in helping to shape the direction of the company.

will produce an individual plan in support of the overall company business plan and strategies. One danger that exists in all businesses is the planning-in-a-vacuum risk, in which an individual function or department plans in isolation and lacks an integration point with other parts of the business. This is often true where a business has become interdependent in all aspects of its functions in order to be successful in reaching its goals. There are two key integration points that will be addressed: horizontal and vertical. When these integrations are completed, the likelihood of business success in a given year increases and the company achieves an important step in alignment.

#### Horizontal Integration

The first integration that should occur prior to the finalization of the functional plan is a planning session that involves cross-functional representatives, often unit managers, to share preliminary key results areas and objectives. The identification of interdependencies with the other functions required for successful overall business plan achievement is discussed. An important takeaway here is the agreement on shared responsibility for achieving results.

#### Vertical Integration

The second integration is within the function, from top to bottom. Again, sharing the key results areas and objectives will ensure that each team member has a clear understanding of the direction of the functional plan

and will be able to use this information to finalize their individual performance plans. This is a valuable input opportunity in which feedback regarding the positioning of the key results areas and objectives will help to fine-tune the final plan. This also creates a buy-in to the achievement of the plan in support of the company business plan.

One method of integration is called Hoshin Kanri or Catchball. This technique is part of the Japanese Hoshin Planning process and will be discussed in Chapter 5 to assist in the deployment of these plans.

### How Catchball Works

The idea is centered around moving or throwing a ball to various parts of the organization. The ball represents the major goals of the organization and can be used to develop more detailed plans as the ball is passed throughout the organization.

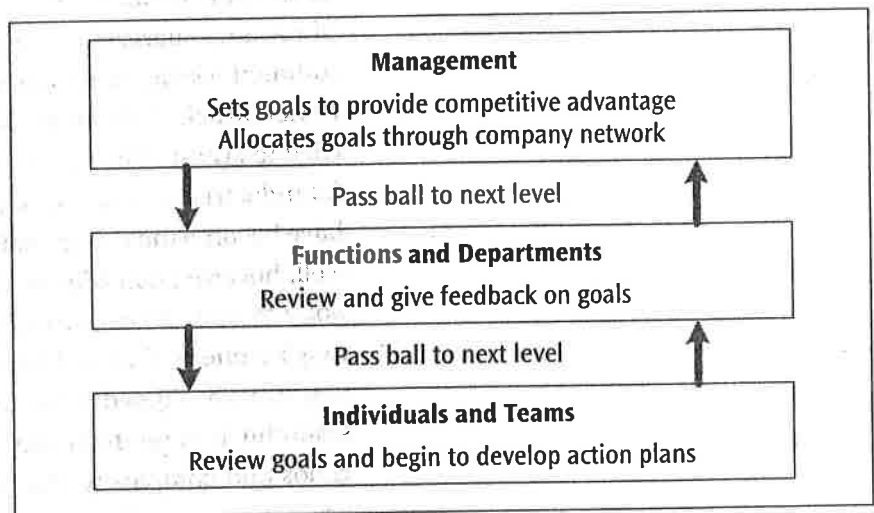


Exhibit 2-5. The Catchball process

At the end of the Catchball process, the management team has received feedback from its functions and confirmed the viability of its key goals. As the feedback loop is closed here, the information is passed down to the next level for more detailed planning and confirmation. This becomes the deployment point for action plans, which are linked to the top of the organization.

**FUSION**

A lot has been written regarding the seamless or boundaryless organization, in which the information and processes cross the organization smoothly, which ultimately adds value to the customer.

SMART



MANAGING

The problem that occurs in typical organizations is the "silo" effect, where each function or entity becomes its own silo in which processes and information can be self-contained to the detriment of productivity.

The idea of fusion is at the heart of creating the seamless organization. Roundtable meetings designed to share information in the early stages of business planning will help to break down the silos and create a more open environment for joint goal setting and measurement.

**Putting It All Together**

Order and efficiency versus chaos and complexity are the yin and yang of creating successful organizations in today's dynamic business environment. David Freedman explores these ideas in his *Harvard Business Review* article, "Is Management Still a Science?" Several researchers have tried to lay out the ground rules for efficiency and order for the successful industrial organization, but the reality is that chaos and complexity have become the major challenge today. Planning fits this scenario quite well, however, considering that having the roadmap serves as a launch point for real-time decision making and adjustments. The business plan may be one of the most important tools in dealing with change. If the plan is truly aligned, large-scale adjustments can be made quickly and smoothly to help the organization navigate through the white waters of chaos and complexity. The business plan may act as the rudder in the process.

**Mini Case Study: Spiro-Gyro, Inc.**

Long ago, in a faraway corner of the galaxy, Spiro-Gyro, a small company that created and manufactured gyros, became a big company. This company was founded and managed by one man. From the day the company began, he designed its gyros, oversaw their manufacture, and was personally involved in the details of the entire operation.



With the passage of time, the company's reputation became legend throughout the universe, for its gyros were the best. So creating, making, and selling these gyros became the company's most important responsibility.

As the demand for more gyros grew and grew, more people were needed to make and sell them and to create better and better ones. In fact an entire department was created to do nothing but search the galaxy and to hire, hire, hire.

The phenomenal demand for gyros required new and efficient manufacturing processes. The increased number of employees made communications more challenging, and the company's ever-increasing growth demanded financial control. Differentiated functions soon emerged, led by some who had risen through the ranks and by aliens who joined the company from distant planets.

The company's success rested primarily on a function called Genesis. The people who inhabited this mysterious realm were special, for it was their job to create new gyros. Another major function was called Prometheus. The people in Prometheus made the gyros that the people in Genesis created. A third major function was called Ulysses. The people in Ulysses traveled the galaxy, selling the gyros in far corners of the universe. As the company grew, a fourth function emerged called Rhinegold, wherein rested responsibility for the company's finances.

There also emerged a set of support functions called Felicitations that were responsible for providing shared services to the company such as information management, employee relations, safety, and legal advice. The people in Felicitations did not create, make, or sell gyros, nor did they generate capital to do so. Yet in countless ways they assisted the other functions.

Because the company had grown and spread throughout the universe, the focus was more on solving the numerous day-to-day problems that arose rather than engaging in planning for the success of the business. In some ways, the numerous functions had developed tunnel vision with respect to their individual responsibilities.

One day, the company's founder called you into his spacious office in the stars. He asked you to serve as his chief of staff and to gather your ideas and recommendations on three key issues facing the company:

- Given the growth of the company and emerging functions, what type of planning process would you recommend to help the company stay on track?
- How would you ensure that everyone understood the main mission and objectives of the company, both long- and short-term?
- How would you ensure one integrated plan was created for the new business year?
- What would you recommend?

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### Manager's Checklist for Chapter 2

- Understand the purpose of a business plan.
- Use the business plan to identify planning information for next level plans, e.g., functional plans.
- Use the planning flow from business plan to key results areas to identify your own KRAs.
- Do not plan in a vacuum: Look for opportunities to integrate your plan with interdependencies.
- Use the Catchball concept to encourage both vertical and horizontal plan integration.