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Fail to plan, plan to fail: A look at a yearly operating business plan

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Abstract

A business plan is an absolute necessity in today's business climate. Frankly, a plan is essential for just about anything one does in life. There are many types of business plans: bank loan presentation plans, investor presentation plans, start-up plans, yearly operating plans and business sale plans among others. The information this paper offers has been gleaned from years of owning various businesses, contributed papers and participation in several seminars on the subject. The author cannot guarantee success by following this information. It can guarantee however, that one has a plan, and that is the best starting point possible.

INTRODUCTION

There are about as many different business plan 'styles' as there are individual businesses that utilise them. There are no hard-and-fast rules about the information each plan must contain. What one needs to do is construct one, tweak it over several years and come up with a style that suits the individual and their business. Here are a few ingredients that might be needed before one starts.

Timing

Start the plan early in September and have it completely finished by early December at the latest. This allows employees to pay attention to business during the holidays and they are then ready to implement the plan on 1 January.

Vision

Have a vision in mind of what one wants to accomplish for the next year. In addition, a corporate mission statement should already be established. A mission statement is a short, specific statement that basically summarises why the company is in business. A 'vision' changes every year, but a mission statement may rarely change.

Current year performance

Have every fact at the fingertips.

Employee involvement

Decide who will be involved in the process. Since most people rely on employees to accomplish corporate goals and objectives it

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follows that they should have a key role and voice in developing the plan they must achieve. Ownership in this process can be a beautiful thing.

Know how to set goals

Properly set goals are an essential ingredient of a plan. Employees must understand the basic four principles: is the goal realistic, who is responsible for its accomplishment, is the goal measurable and are there specific time frames for accomplishment established?

GETTING STARTED

Establish a corporate 'vision'

The basics

A vision is not something overly specific in nature. It is the equivalent of peering over a cliff edge and looking into the distance and imagining what one cannot really see so far away. The vision is a short, thoughtful statement about what one would like to accomplish in the upcoming year without the vision becoming a goal itself. Develop this during September.

Research

Homework

Depending upon the type of business, this can range from projected year-end results, competitive surveys (know thy competition!), the business climate in the area (country) and forecasts of any changes that may affect ability to achieve next year's vision, including pricing, raw cost of good, inventory levels, general economy, borrowing rates, etc. Quality research is the basis for a quality plan. This should be carried out in mid-September.

Establish a written corporate philosophy

Ingredients

This is generally focused on the corporate operating standards. This is an opportunity for the CEO to tell his/her employees what they really believe in and how the CEO wants his/her company to operate and deal with fellow employees and the public. This is optional but may be quite important, especially for new key employees to learn corporate operating standards. This should be done in mid-September.

Brainstorm with a business plan team

Taking the research, current year performance, the vision and operating philosophy, try to dissect the upcoming year and begin to formulate corporate goals and objectives. If the business is structured into profit centres and these managers take part in the planning process, issue them financial worksheets (or have the managers develop them) at this time. It follows that if a profit-centre manager is responsible for achieving the plan then they should be able to forecast the next year with a high amount of accuracy. The author also likes to have profit-centre managers project their capital expenditures so they also get to develop a 'wish list' for their department. Implement by 1 October.

Individual objectives

Meet with each profit-centre manager individually and discuss their progress this year and the overall department performance looking at next year. Discuss corporate goals and objectives in general and trade ideas. Each department manager should then begin thinking about their own department's goals and objectives with their assistants. Do this in early October.

Begin the marketing plan and budget

In the author's industry this is important as marketing has a huge impact on sales and thereby affects most departments directly. This should be done in early October.

Meet with managers

Set the corporate goals and objectives and cast them into stone. Department managers now begin to write their department goals that support the corporate goals. Do this in mid-October.

Collect 'wish lists' for capital expenditure.

Meet with managers and begin to negotiate a final agreement. These meetings should be held in mid-October.

Meet with department managers

Negotiate and approve their department goals, economic projections and capital expenditure. Finalise at this meeting, which should be held in early November.

Consolidate

Combine all profit centres' economics into a final corporate consolidated plan. Do this in early November.

Marketing

Complete the marketing plan and budget in early November.

Develop a strategic plan

This is a 'battle plan' or action plan on how the management is going to achieve the corporate and economic goals. Department goals should be a part of the action plan. This should be developed in mid-November.

Ownership

Meet with the entire business plan team. Go over every document in detail and secure their commitment and approval of the plan. Remember that ownership is a beautiful thing. Do this in late November.

Dissemination

Individual department (profit-centre) managers then meet with their assistants and go over the plan and secure their commitment. This should be done in late November.

Almost there

THE FINISHED PRODUCT

A completed business plan structure may look like this:

- table of contents
- current year financial review
- vision and strategic plan
- corporate goals and objectives, including operating philosophy
- economic forecast consolidated
- economic forecast by profit centre
- capital expenditure budget
- marketing plan and budget
- department or profit-centre goals
- individual key manager personal goals
- work papers, research, competitive surveys, etc.

Commitment

The whole key to a successful plan is that management participates, contributes to and approves the plan, accompanied by a commitment. This gives management a sense of ownership since 'they' did the plan. Naturally the CEO has a certain veto power over the entire process, but this must be used wisely. A plan without commitment from the people who will be responsible for achieving it is, in the author's opinion, almost an entire waste of time.

Some people may want to take the entire plan and enclose it in a spiral three-ring binder, add a nice cover page with signature block or bind it in book form. So now what does one do with this nicely bound business plan?

Follow through

- Sign out a copy of it to each key profit-centre manager who had a hand in its development or whomever it is felt should have one (perhaps including bankers and/or key investors). Should a key employee depart the business the plan is the first thing returned to the company. This is the most important reference guide they have.
- Constantly review the plan as the year progresses. Management should use the plan as a measuring tool for their department's progress.
- The plan can and should be used as a performance measuring and follow-up tool. Performance reviews, wage increases and bonuses can and should be based on the plan. This is another reason for management to have ownership and believe in the plan in the first place.
- The plan is a living plan. The plan can be changed. If however, a major circumstance warrants a change, either positive or negative, then management should have input and renew their commitment to the revised plan. Resist changing a plan for every little situation that may pop up. There are usually as many positive changes that can be made as there are negative ones that occur over a year's period of time, and changing the plan to account for minor variables is simply not productive.

WHAT HAPPENS IF IT ALL GOES WRONG?

Well, that happens. A realistic plan is only that, a plan. It needs to be executed with intent, focus, commitment and force. If the research is complete and thoughtful, one has accounted for as many future variables as possible, the profit centres have done their homework, ownership has reviewed and approved it and key management have ownership in it, then one should have a well-thought-out plan ready to execute.

If it all goes wrong then start over. It is never too late to make a plan.