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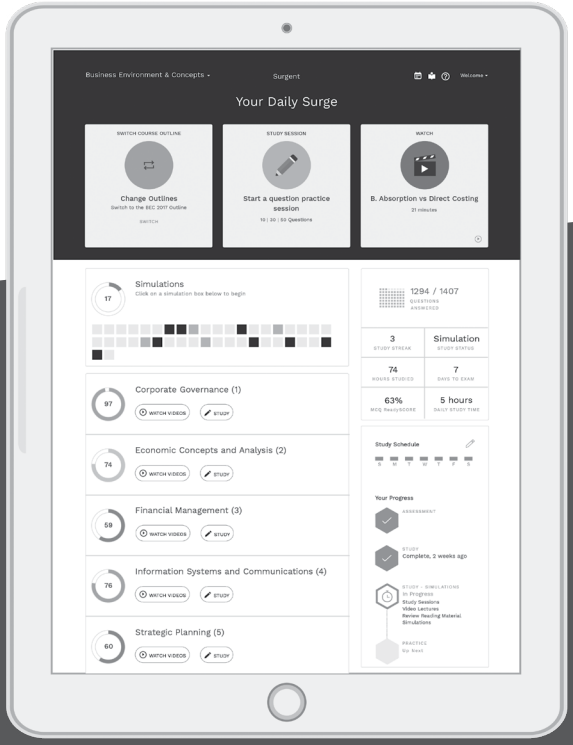

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Revised January 2022

Introduction

I. Course learning objectives *1*
II. Course structure *1*
III. What we have learned from COVID-19 *1*

Introduction

I. Course learning objectives

This course on planning will probably be different from what you may expect. It is not a course on traditional budgeting, but rather is a course in the alternative to traditional budgeting. Most organizations spend huge amounts on planning, forecasting, and budgeting. This course will teach you how to save significant money by combining the disciplines. More importantly, using this system will ensure that the organization is far less subject to power-based politics and more apt to have executives, departments, and workers aligned with the central goals of the company.

II. Course structure

After some important discussion about how planning sets the stage for innovation, and why innovation is crucial to the company, we will move step by step through the entire planning cycle from analyzing variances at the beginning of the year, through planning for the next year, and back to the review of how we have done. We will not allow strategic planning to be disintegrated from the annual plan, but will show how it can be an important part of the annual process. Furthermore, we try and make a case that the organization completely does away with the annual budget. While there will be a document that looks very similar, its purpose will be completely different.

III. What we have learned from COVID-19

Did we plan for the pandemic? What could we have done differently with respect to our planning? Certainly the recent pandemic has altered many aspects of our organizations – but mostly, it has shown us the need to be nimble and change rapidly. That concept will be covered in many, if not most, of the chapters in this program.

Importance of Change

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Importance of Change

Learning objectives

Upon completing this chapter, the reader will be able to:

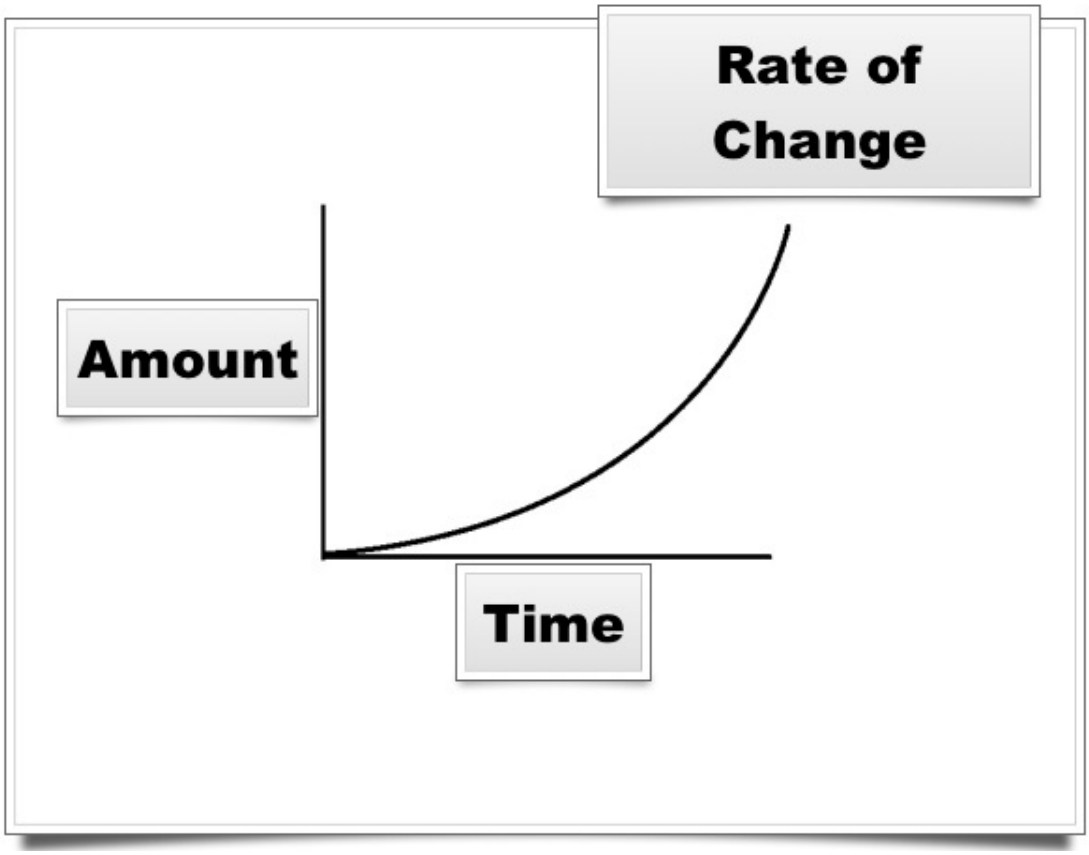
- Understand the importance of change;
- See how and why some organizations refrain from change;
- Understand the reasons why some companies don't change; and
- Develop techniques to speed up a company's rate of change.

I. Planning and change go together

Stop and think about it – if there were no change, there would be no reason to plan. After all, everything would be exactly as it had been over the past couple of years. Life would be totally predictable, and we wouldn't have to think much about changing.

Regardless of whether we like it, change is happening. Some of us don't like change, and others seem to thrive on things changing all around us. But it really doesn't matter about our preferences, change is happening regardless.

Think about change. Do you think that the rate of change is occurring faster today than it did 10 years ago? From everything that I've seen, and also from what I've read, the rate of change is actually more like a geometric curve than an arithmetical curve. In fact, the recent pandemic obviously forced change at a much faster rate. Some organizations handled those changes better than others.



A. Can we keep up with this change?

The reason for this course has precisely to do with the above question. We must keep up with the change if we are to remain relevant and successful. Consequently, we need to design both a planning culture and a planning system that is designed to keep up with change.

B. What if we don't?

We must keep up with change, and we need to recognize the consequences if we do not. In fact, if we fail to keep up with change, our organizations will lose relevance, market share, customers, and eventually die.

If we fail to change as fast as the world around us,
we are destined to fail.

C. Focus on change, not on competition

For years, our organizations have traditionally focused on our positions against the positions of the competition. If we were doing better than the competitors, we were doing ok. But will that work today? The answer to that question is no. Think of Barnes and Noble. Do you think that they might have been happy to be moving ahead of Borders? Do you think they might have recognized that Amazon was going to be the real competition that would forever change their business model?

The key today is that we have to be looking at our evolutionary position and advantage over time. Are we keeping up with the world of change is the key question?

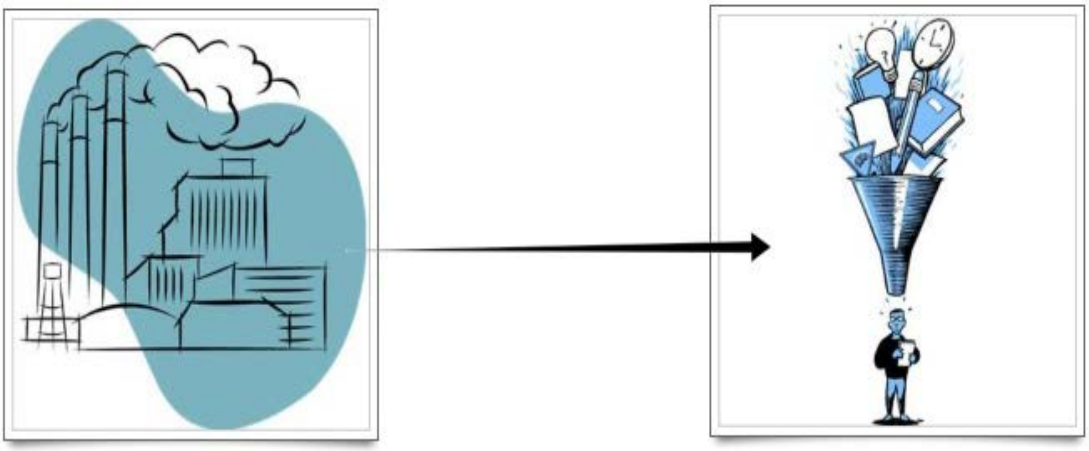
D. Response to customer needs

While some companies will look at the competition or internally, true adaptive organizations will constantly look at the customer experience and key in on customer needs. Think of the traditional, and often maligned, DMV office. Do you think that they are focused on what is best for the customer, or do you think they are more focused on something else?

Customers are changing, and they are changing the market. Are we looking at what they are doing, or are we too focused on our own internal processes to even notice what is happening? If we are to succeed, we need to respond to customer needs and take the lead in redefining how we will respond to customer expectations in positive ways. When we do this, we will increase our customer loyalty and improve our margins.

E. Consider a slightly disorganized management system

I recognize that such a statement to a group of CPAs might be considered heretical, but please hear me out. If we continually concentrate on improving our management systems toward more efficiency, more predictability, and more structure; we take the risk of moving the organization to the point where it is unable to change. To thrive in turbulent times, the organization needs to look at ways to reduce structure and allow people more authority to experiment and find new creative solutions to business problems.



Old to New-Style Organization

II. Old-style vs. new-style organization

Over the past several years, our organizations have moved from ones that mimicked what was needed during the Industrial Revolution to ones that are more needed now in the Knowledge Revolution. Scientific management, also called Taylorism, is a theory of management that was designed to improve economic efficiency, especially labor productivity. It was developed by Frederick Winslow Taylor in the 1880s and 1890s and was used primarily in manufacturing environments.

The system was designed around the idea that if we do repetitive tasks the same, we can do them more efficiently. The problem with that idea is that, as we become more efficient by employing more technology, we have fewer and fewer jobs to make more efficient. Obviously, this hurts employment, but it also establishes a diminishing point at which it is impossible to improve since we can get only so efficient.

The knowledge company, on the other hand, is in a totally different position. It isn't just striving to be more efficient; it is also striving to do more and different things where the need for jobs is limitless. In this environment, we need creative people constantly thinking of those new products and services, as well as ways to accomplish the present tasks more efficiently and to better serve the customer. Generally, old-style organizations didn't handle the forced changes as well as new-style organizations.

A. Traditional organizations were never meant to change rapidly

When we think about it, creativity and change really fight each other. If we want to achieve the greatest productivity and efficiency, we really don't want creative people; we want obedient people. We want people who want to put square pegs in square holes. When we have this, we won't have a lot of change, but we will have very predictable organizations.

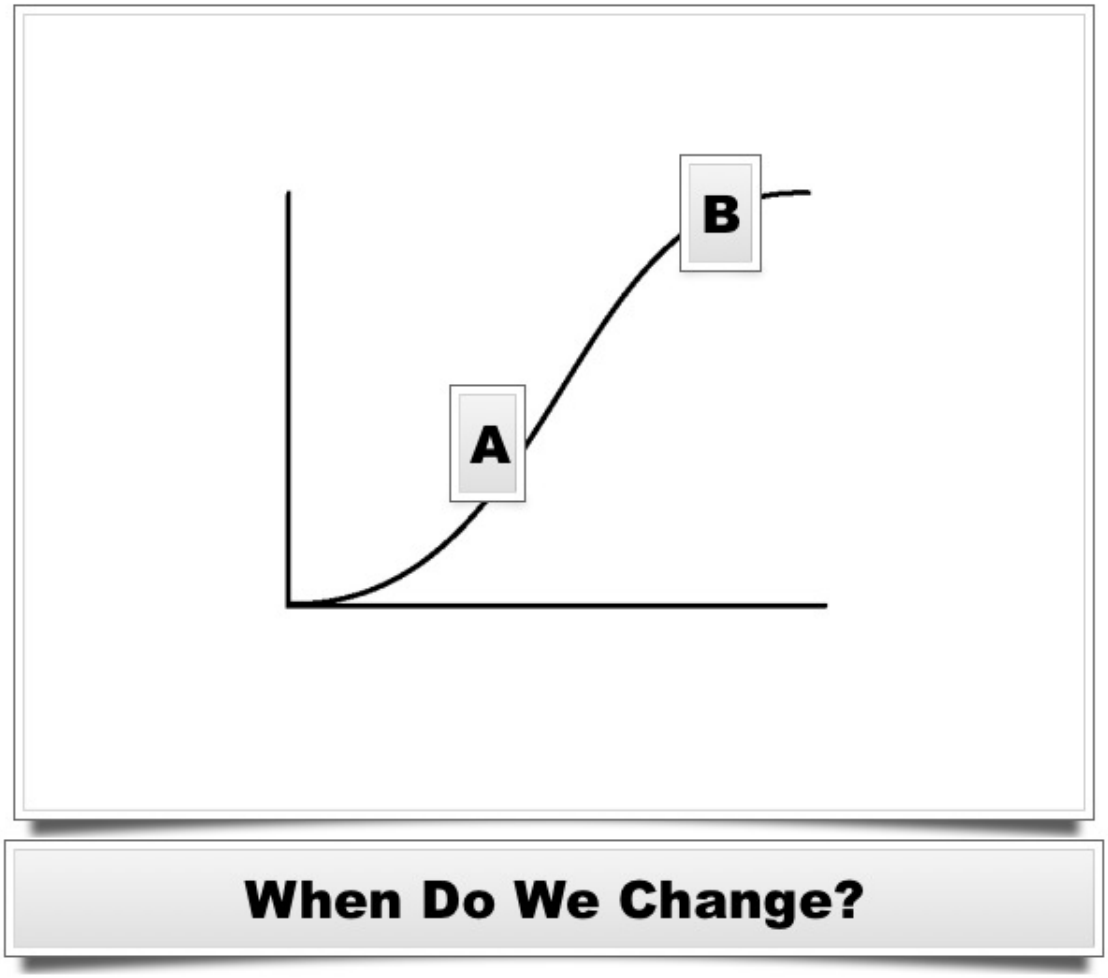
III. Why change doesn't happen

If change is not occurring in our organizations, we need to take a look at why not. Often, if we understand the reasons, we can do something about them and improve the environment.

A. Defensive thinking

One reason why organizations don't change is because they are afraid of losing their base. They are afraid that by spending too much on something new, they will lose what they have. The following chart shows a typical product or service growth chart. Things start out slowly as we are developing both the product and market. Then, as things take off, we move into the growth phase. Eventually, the competition catches up with us or something else happens in our market, and our growth slows down.

When we are in the growth phase, most of the company's efforts and attention are paid toward keeping up the momentum; however, there is the mistake. If we wait until we hit position B, we will be well behind the curve for the next product or service. If we really want to be a changing organization, we need to start to plan for change at point A.



B. Inflexible business systems

Often our organizations put in place business systems and procedures that may be efficient but cause great expense or less potential to implement change. For example, if we spend hundreds of thousands of dollars implementing a new accounting system, there will be a lot of reluctance to adopt new technology that might serve the customer better. Such systems might be great for efficiency, but not good for change.

C. Fossilized mental models

Often, we get bogged down in thinking systems that causes us to be unwilling to change to keep up with the times. For example, many companies are constantly relying on "best practices" to determine where to

go next. But let's ask ourselves a question – how does a practice become a "best" practice? I would suggest that it becomes so by being proven by many other organizations and having them say that this is the best way to do something. Doesn't that take time? If so, we can assume that the best practice is probably a tried and proven practice done by a lot of other organizations. If we do nothing but follow best practices, we will not be innovative.

D. Abundant resources

Believe it or not, we can have too many resources. We can have too much cash, income, raw materials, or even talent. If our abundances are too great, it is easy to fall back on them instead of finding a creative solution to a problem.

Most managers know that it's easy to throw money or people at a problem rather than taking the time to find the true source of the problem and solving it at its source. This especially happens when the organization is in a growth phase with everyone concentrating on the growth and no one looking at where we need to go next.

E. Contentment with the status quo

Many organizations follow the management concept, "If it ain't broke, don't fix it." While that may be true in a few situations, there is another concept coined in the title of a great book by author Robert J. Kriegel, *If It Ain't Broke, Break It*. When management starts to hear comments like, "That's the way it's always been done around here," it knows that there is something very wrong.

F. Entitlement thinking

Another problem that can develop in an organization causing it to fight change is a type of thinking that says, "We earned it, now we are entitled to the rewards." This is especially true of the organization that survived a tough situation to become prominent in its industry. Now, the troops want the rewards, and it's difficult to withhold them. But, if we become too satisfied with our situation, we no longer have that hunger that causes us to be willing to innovate.

G. Exercise

Take a moment and ask yourself, are you in an organization that is changing as fast or faster than its environment? If not, why not? Did your organization handle the required changes resulting from the pandemic well? Does this demonstrate any of the problems listed above?

IV. Building a culture of innovation

If we want to be a company that changes, we must be willing to build a culture that sees the value of change and wants to see it happen. Change must be the mantra in the organizations, and people must be constantly talking and thinking about how the organization can change for the better.

A. Spot opportunities

It is said that great innovators are good at spotting the inconveniences and encumbrances that customers have come to take for granted but most industry leaders fail to see. When they recognize these opportunities, they then set forth to try and find a better way to serve the customer. To amaze customers with the unexpected, you first have to uncover their unspoken needs.

For example, let's look at the Nest brand thermostat. I happen to have a programmable thermostat in my home. I read the directions once, spent over an hour programming the various times we get up, sleep, and expect to be away from home. While that was an inconvenience, I lived with it. Now, I see a new product out that will just remember the times I might push the thermostat up and down according to my lifestyle, and the thermostat will program itself. I'm not sure, but I would expect that this is the first really big advance in thermostats in a long time, and one that will probably earn the company a lot of money.

B. Two questions to ask when considering innovation

As we are building a culture of innovation, we must ask ourselves two key questions that will help us direct our paths and plans.

1. What are the skills and assets we have that are relatively unique and important in creating customer value?

Often seen as part of a SWOT analysis that asks us to evaluate our strengths, weaknesses, opportunities, and threats; this question asks us to look at the strengths we have specifically in the areas of skills and assets. What do we have that can be leveraged to help us innovate and go ahead of our competition?

2. How else might the skills and assets add value?

Innovation should always be about adding value to the organization. We accomplish that either by doing something that will add value for the benefit of the customer (which will, in turn, add value to the organization), or by doing something that will make some process more efficient and productive (and that will add value to the organization).

V. The only way to protect yourself against creative destruction is to do the destructing yourself

Creative destruction will happen. It's not a matter of if; it's a matter of time. At some point in time, every organization will face someone else who is willing to innovate in a way that is apt to destroy our market or business model. Do you think that Borders executives had thought of selling books through the internet? Possibly they did, but didn't want to invent something that might compete with what was already doing well for them.

A. One that can move more quickly than the external environment

The benchmark for change is no longer to move more quickly than the competition. It is to move more quickly than the outside environment. If we do not commit to that fast change, our destruction will come from a source that is other than what we consider our competition.

1. One that can adapt to the future

We must be willing to face what is happening. That is why we are looking at this subject, and why it is necessary that our organization plans for what will happen.

2. Be willing to face the inevitable

Unfortunately, the "ostrich syndrome" is way too common. We see change coming, but we are unwilling to face the inevitable. Sometimes it is within our corporate culture because we will be punished for speaking

about negative things. Or it is just because our culture or organization believes that it won't happen to us. Either way, the attitude is a killer.

During the mid-2000s, many individuals and companies had a concern about the exploding mortgage debt and housing prices. Both economists and corporate executives knew that the trend was unsustainable; however, few did anything about it. Consequently, the world fell into a deep recession, and it is slowly recovering. Some organizations did see the handwriting on the wall, took conservative positions, and are now enjoying the fruits of their forward thinking.

B. Learn from the fringe

One of the best ways to build a culture of innovation is to watch what is happening in other industries and think of how those trends can be adapted to your industry. A good example of this is how many more companies are taking WIFI and other internet connections and adopting them to their industries. At first, we had computers that were tied to the internet. Then, we had appliances that could talk to the internet and we could talk to them through our mobile devices. Now, Nike has come out with a shoe that has a chip and can talk with our cellphones and next generation sport watches. If the rumors are correct, soon Apple will be selling a wrist device that will talk to just about everything.

1. Spend time in other industries

We probably will not be able to do the above if we are not willing to spend time in other industries and hire people from other disciplines who will be able to bring their experiences from those other locations. If we only stay in our own specific field, and insist on hiring people from our own sphere, we are apt to miss out on a lot of potential innovation.

2. Subscribe to the blogs

One of the best ways we can find out what's happening in the world out there is to follow a few blogs that are constantly telling us what's new. Personally, being in education, I subscribe to an "Online Education Outlook" blog that usually gives me 3 articles about innovative online education directly into my inbox every morning. Another of my favorites is "Fast Company" that sends several articles a day on some of the latest changes in technology.

3. Scenario planning

When we see a trend developing in one industry, start to build spreadsheet models to simulate what might happen to our organization or industry if the same thing happens at home.

4. Challenge assumptions

When we hear the comments like, "That's the way it has always been done," we need to immediately challenge those assumptions and speculate how it could be done in a different way.

5. Ask crazy questions

Innovative organizations need to occasionally ask really strange questions like:

- How could someone take 70 percent out of overhead expense in the industry?
- What would it take to completely "wow" the customers?
- Would it be possible to completely change the system of delivery?

6. Invest in diversity

Organizations generally are non-diverse. Conformity is the norm and there is relatively little “out-of-the-box” thinking. For this reason, it is highly recommended to include younger people, people from different backgrounds, and other types of diversity into our teams.
This concept is especially important when forming teams around innovation. Often organizations form teams around position rather than function. If we form an innovation team around senior management, we will obviously get much less diversity than if we purposely include many levels within the organization.

7. Encourage internal dissent and debate

Innovative organizations stress the need to encourage dissent and debate. Unfortunately, in all too many companies, people are seen as being disloyal for putting forth a different idea. This is unfortunate. It is important that managers stress the importance of debate and differences of opinion.

8. Build plenty of options

We need to encourage plenty of ideas because of the small number of them that will be worthwhile. It is said that out of every 1,000 ideas, only 100 will merit some kind of small-scale experiment. Of those 100, only 10 will make it to the investment stage. Of that 10, only 1 or 2 will turn into a viable product or business. Therefore, if organizations want to be innovative, they need to encourage the original 1,000 ideas.

9. Build a way to hear the ideas

Innovative organizations build systems to hear from both employees and customers who are willing to give ideas. Many companies establish websites, Facebook pages, and internet forums where employees are encouraged to put forth ideas to serve the customers better or make changes to improve efficiency.

As a consultant, I often ask strangers who I meet a simple question: “In your job, have you ever had an idea that would improve the company?” The answer was usually something like, “Sure.” The next question is, “What did you do with that idea?” “Nothing,” was the normal answer. The final follow-up question is, “Why didn’t you say something?” The usual answer to that one was, “They don’t care, or they wouldn’t listen.”

When I have discussed this typical scenario in my classes, no one is surprised.

In the same way, organizations put up electronic ways for customers to give the organization good ideas. Without modern technology, there was no way that our organizations could easily hear from customers. Today, it’s important that our companies recognize that social media is two-way. If we use Facebook only to advertise in the traditional way, we will not be using social media to the fullest. It is important to also encourage customers to put forth ideas and listen to what they are saying.

10. Develop a way for low-cost prototyping

Model building is the key. Fortunately, with computers and sophisticated statistical programs, it’s relatively easy to build models to simulate how an idea might work.

11. Have smaller and more business units

One of the things that inhibit innovation is size. As organizations grow, they often take on a bureaucratic style that goes against innovation. Some companies purposely keep their operating units small. The W. L.

Gore and Associates, maker of Gore-Tex, is known for keeping its operating units to a size of around 150 to 200 people. The reason for this is that Gore feels that the culture of an innovative organization must be small, intimate, and a place where everyone knows everyone else.

The innovative nature of the company can be seen when we consider that they are market leaders in dental floss and guitar strings in addition to the Gore-Tex fabric.

Smaller organizations are easier to organize into teams, have fewer levels, and far less politics. All of these things work toward innovation. Nimble organizations may look big on the outside, but they tend to feel small on the inside.

12. Instill internet type values

Following is a list of values that are prevalent in internet thinking. Many of those will be discussed further as we move through this seminar. Contrast those to some of the values in the more traditional organization.

Internet values include:

- Crowd-sourcing;
- Wikis;
- Blogging;
- Open systems;
- Community;
- Transparency;
- Freedom;
- Meritocracy; and
- Collaboration.

Traditional values include:

- Control;
- Discipline;
- Accountability;
- Reliability; and
- Predictability.

VI. Group exercise

Form into small groups and discuss the different companies represented and discuss to what extent the organization might be considered an innovative or a traditional organization. Discuss how your organizations handled the forced changes caused by the pandemic.

Key to Profitability Is Proper Planning

Learning objectives ***1***
I. Planning or budgeting? ***1***
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2. To allocate resources *1*
3. To give broad direction to the organization *1*
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Key to Profitability Is Proper Planning

Learning objectives

Upon completing this chapter, the reader will be able to:

- Recognize the need for proper planning;
- See the dysfunctional qualities of traditional budgeting;
- Understand the difference between planning and budgeting; and
- Describe the qualities of a good plan.

I. Planning or budgeting?

One of the most important things that will be considered this whole day is the difference between the traditional organization and the new-style organization. Consequently, we will constantly be referring to the difference, and encouraging you to know and understand how the new-style organization works.

A. Why do we plan?

There are several answers to this question, but most of them revolve around the following reasons.

1. To know where we are going

Obviously, this is a great reason to have a plan. One of the most important things in a successful organization is for everyone to have a good idea where the organization is heading. It is this knowledge that keeps everyone on the same page and brings alignment to the company. Without a plan, and general agreement to the plan, there will be no alignment.

2. To allocate resources

Most organizations have limited resources. Therefore, a plan needs to be in place that allocates those limited resources to where they will do the most good. This is especially true when the organization decides on new projects, capital expenditures, and people assignments.

3. To give broad direction to the organization

This may be the most important reason for planning, and it is closely aligned to the first reason mentioned. Everyone in the organization, from the chief executive to the workers on the factory floor or those interfacing with the public, all need to be in agreement with the broad direction of the organization. If they are not, there is a tendency for them to pursue more selfish goals that may hurt the organization in the long run.

4. To control the outcome

Of the reasons mentioned, this may be the most controversial and the one that can't be achieved. In economics for years, business owners have attempted to control the direction of the organization. In the businesses of old, that goal may have been more possible; however, with our fast-changing society, many other things exert control that make our attempts at control fruitless. So, we may conclude that directing the organization is more of a realistic goal than actually controlling it.

Key cliché: "If you fail to plan, you plan to fail."

B. Why do we budget?

When we ask this question at seminars, we often get the same answers as those under the “why plan” question; however, with one additional answer.

1. To control spending

This reason goes directly to point 4 above. In the old-style organization, where we thought we could control the organization with more of a “command and control” structure, the budget became the primary way to attempt to control. The theory was that management didn’t really trust middle- and lower-level people to spend wisely, and therefore, we needed to control what they spent by giving them permission to spend only certain amounts and for only certain purposes. Thus, the budget was formed.

C. Traditional budgeting

Whereas planning tends to be more of a financial function, budgeting is more of a political function. Because its primary purpose is to control spending, individuals within the organization tend to figure out political ways to manipulate that control resulting in several dysfunctional aspects to the organization.

1. Suits do the planning, staff does the budgeting

One of the greatest problems with traditional planning is that senior management generally does the planning while they delegate the budgeting phase to the staff. This causes several problems, with one of the greatest being a lack of accountability. When people don’t have a part in formulating the plan, they tend not to buy into the plan nor are they willing to be accountable to the plan.

With one group doing the planning and the other the budgeting, often the two disciplines do not meet causing severe confusion at best.

2. Use it or lose it syndrome

With budgeting being a method of controlling expenses, people quickly realize that the only way for them to get allocated money next year is to make sure to spend the allocated money this year. Consequently, hotels, training companies, and several other industries flourish during the last couple months of the year as these companies quickly spend money to make sure they will have it included in the budget next year.

3. Can’t spend the money

The flip side to the “use it or lose it” syndrome is not allowing a good expenditure because it wasn’t included in the budget. For example, a manager discovered a great way to save $100,000 per year in her department by spending only $10,000 on a particular machine or software program. But, because the $10,000 expenditure wasn’t in the budget, she is not permitted to make what is obviously a good decision.

4. No one likes the budgeting process

We need to admit it—there is probably no other process within the organization that is less liked than budgeting. This is true for several reasons:

- It is time-consuming;
- It is often ignored, especially by management; and
- It is often seen as a waste of time.

D. Get rid of the budget

Making that suggestion to a group of CPAs may very well put me in the class of heretic; however, that is exactly what we are suggesting. And we will attempt to prove that eliminating budgeting in the traditional sense will not only improve the operations of the organization, but it will also increase productivity.

The above problems of traditional budgeting occur because the budget is primarily a political discipline driven from the budget really being a permission to spend money. That, in turn, is derived from the purpose of the budget being to control spending. While controlling spending is important, we will suggest that it can be accomplished in a better way. Some kind of system where people are rewarded for being more efficient will cause the employees to want to be productive. By using that kind of reward system to keep expenses in line, we can do away with the traditional budget, and concentrate on planning.

1. Planning not budgeting

For this reason, and for the duration of this program, we will not refer to budgeting any more. We will get rid of it. However, I did not say that we would get rid of planning. In fact, the rest of the program is all about planning; however, it is not about budgeting. Sure, at the end of the class, you will know how to construct an annual plan that looks much like a traditional budget, but it will be derived in a totally different way that will be more fun, more creative, have greater accountability, and lead to a more successful organization.

II. Qualities of a good plan

A. Process not an event

One of the greatest problems in the planning function is that it is often seen as an event rather than a process. Good planning happens throughout the year, and it is not a fall project to prepare the budget. As we will see, the process starts as soon as the books are closed and reviewed, and it continues until the various plans are put in the can for the next periods.

1. Enjoyable process

With this model, everyone in the organization has a part in the planning process. Planning is seen as an integral part of doing business rather than something that one has to do once a year and that is relatively fruitless. Planning should be a creative process and involve everyone in that process. People naturally want to be creative, and the process uses that natural creativity to form a good plan. When the plan is seen as a political chore, people don’t like the process. When it is seen as an opportunity to be involved in the business, it is seen as an enjoyable part of work.

B. Create alignment

The opposite of alignment is silos. In the successful organization, teams run the company and they are all tied with each other through a series of teams. In a more bureaucratic environment, managers tend to create silos and don’t work together. The result is a dysfunctional organization where company politics is the operating system and trust is very low. With proper alignment trust is high, and everyone is on the same page working toward the same goals. As we will see later, departments plan the same as senior management.

C. Culture of accountability

Because everyone had a part in formulating the plan, everyone feels accountable to the plan. Everyone wants the plan to succeed causing people to want to hold to good decisions and good spending. There are far less instances where people purposely try and circumvent the plan through political tricks. The greatest problem with traditional budgeting is that people don't want to follow the plan because they had no part in its formulation. The budget is seen as an external control force that they have to obey and is enforced by the police officers – the accounting and finance department.

III. The integrated planning process

While many of the following steps in a completely integrated planning process are related and can be combined or be accomplished in a different order, generally the process is a step-by-step process. We generally want to go from the first through to the last step.

A. Review and reflect

This is the first part of the process and is generally accomplished immediately after the close of books. It is in this step that we look at last year, the world around us, and try and determine where we went right and where we missed the boat. The process compares the plan with the actual results; however, the process is to learn and not to punish.

Were our sales higher or lower than we had projected? Why did that occur? Was it a mistake in the planning process, or did something occur outside of our control that we hadn't anticipated?

B. The business model or plan

Traditionally, business plans are developed to obtain financing, partners, or some other specific need. This plan is actually a type of marketing piece designed to convince someone else of the potential of the organization and why an investment is warranted. When the business plan is included as a part of integrated planning, the step is used to analyze the organization's business model and examine some of the reasons it might be working, not working, or changing.

C. The strategic plan

In this step, we start to examine the vision of where the organization is going, how it is going to reach that vision, and on what core values it will operate. The broadest strategies of the organization are planned at this point. As we will see in the section on strategic planning, it is not just done at the senior management level, but also each division and department has a strategic plan where the department sets its vision, mission, and core values. The strategic plan is an important part of creating alignment within the entire organization.

D. The marketing plan

As we get a little more detailed, we look at how we will market our goods and services. This is an important step because we want to look closely at changes in the marketplace and how we may need to adjust our traditional marketing efforts due to these changes.

E. The five-year operating plan

After all of the above is complete, we are in a position to start putting numbers to our plans and see what it looks like on paper. The start of this is to create a balance sheet and income statement out at the five-

year point. Obviously, the numbers are not detailed at this point, but they should show what the organization should look like at the five-year point.

F. The technology plan

This may be viewed as the first of the three parts of a resources plan. The resources available to most organizations would be technology, people, and capital, which will each have its own plan. Many companies consider technology as part of the operating plan; however, we strongly feel that it should be a specific plan taking a close look at our level of technology, what is changing in the market, and what changes we need to make to stay ahead of the curve.

G. The capital plan

An important part of the resources plan is the capital needed to reach our vision. Using traditional and non-traditional methods, we look at capital allocation. This part of the plan also takes in the issue of money and how we will be able to obtain the resources for the needed capital expenditures.

H. The people plan

In a more traditional budgeting environment, the people plan is a very political exercise since everyone seems to want the most people for their departments. Here we spend more time on what kinds of people we want, how to get them, motivation, and leadership in the new-style organization.

I. The sales/income plan

While this plan is actually discussed at the five-year and closer levels, it is most important when reading the annual plan. In this step we look at the various methods of sales forecasting and how the finance department helps the operating departments with this step.

J. Intermediate planning

In this plan we will take the five-year plan and move it toward the one-year mark. The theory is, if we want to be at a specific point in five years, where do we need to be in four years? If we want to be there in four years, where do we need to be in three years, and so forth? As we move the five-year plan toward the present day, the numbers get clearer and we increase the detail in the planning.

In this part of planning, we will also talk about flexible planning. As we complete the intermediate plans each year, we need to update them as we get more current information. We also develop the necessary metrics to follow as we both revise and establish the plans.

K. The one-year operating plan

We used to call this plan the budget; however, as can be seen from this progression, it is developed from the intermediate plan and not as a stand-alone document. We end up with the same kind of numbers-oriented plan; however, how it was arrived at and by who is the key to its success.

L. The monthly plan

Next, we take the annual plan and break it down into its 12 parts representing the monthly numbers. Here we allow for seasonality and put in the expenditures and income that might not be evenly spaced throughout the year.

M. The cash plan

From the monthly plan, we adjust for the non-cash items and then project our borrowing or investing opportunities and needs.

N. Be ready to start again

The last part of integrated planning is really just the first step as we assess the accuracy of our plan and get ready to improve the planning for the next year.

IV. The role of the finance department

In the old-fashioned command and control management system, the budget was the primary tool for control. Consequently, the finance or budget department, seen as the author of the document, was often seen as the enforcing department for the system.

In integrated planning, exactly the opposite is seen as the result. All departments are creating their own plans, so they feel ownership toward those plans. But, sometimes the individuals in those departments don't have the necessary skills to put together the best plan. So, it is the job of the finance or planning department to serve the operating departments by helping them put forth the best plan possible.

This is especially true with some of the more sophisticated statistical techniques that may be used in determining sales, capital needs, and even marketing plans. It is often the planning experts who have these skills, so it is their job to help those without.

A. Empowerment

While we will talk about it in other sections, we need to discuss the concept of empowerment at this point. One great definition of empowerment is:

"Sharing the ability to make critical decisions."

This becomes a key concept when considering planning.

1. Managers and teams build the plan

When we are properly empowering our people, they are the ones to build the plan from start to finish. They go through all 13 steps of the plan at the department level. They take the time to review and reflect, see how they fit into the overall business plan of the organization, and set a strategic plan for their department. Then, they do their marketing plan if it is warranted, look at their own technology needs, and formulate their own people plan. They access their needs for capital equipment and go through the exercises of capital planning with the help of the planning department. Next, they formulate a five-year plan for their department, move it into an intermediate plan, and finally develop a one-year operating plan. The department will then break the yearly plan into months and may or may not look at how their department fits into the cash plan. With the exception of the cash plan, each department will go through all of the steps with the departmental plans being consolidated into the final organization plan.

2. Teams must have the ability to move money

One of the greatest dysfunctions of the old-style budget is the way it is enforced. We usually end up budgeting in detailed line items thus removing the flexibility for managers and teams to move money. For example, the problem mentioned before about the person who was not able to save $100,000 because

$10,000 wasn't in the capital budget to purchase a machine. With the integrated planning system, the manager would have the right to move the $10,000 from one account to another or even borrow from future years if the decision made sense. Giving departments that kind of autonomy and empowerment is key to good management and the key to good planning.

3. Teams should be able to save unused money

Another type of flexibility that should be allowed to the team leaders is to be able to save unused money to future years if it is not needed. For example, let us say that the marketing department planned for some training, and that was put into the plan. Due to some things happening to the department near the end of the year, the team leader decided to put off the training until next year. Under the old system, he or she might not want to do that since it will show a variance and the amount might not be allocated next year. With this flexibility, the manager should be able to save the money and push it forward to next year.

V. Group discussion

Divide into small groups and discuss the planning and/or budgeting system in your organizations.

In your discussions, consider how happy are the employees with the system; is it integrated or disintegrated with different people handling the strategic planning from the ones who do the operating planning or budgeting? How did your planning system work during the recent pandemic? Did that event expose any difficulties?

At this point, and without going further, do you think that an integrated planning system would work for your organization?

Review and Reflect

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I. Review actual against plan ***1***
A. Feedback loop **1**
B. Plans must be realistic **2**
1. Case study *2*
C. What causes variances? **2**
1. Faulty assumptions *2*
2. Faulty analysis and math *3*
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II. Correction ***5***
A. What was the cause? **5**
1. Operations problem or planning problem? *6*
2. Is this the true cause? *6*
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B. Will it happen again? **6**
C. What is the financial effect? **6**
D. What is being done or should be done? **6**
E. Are there implications for other managers? **7**
III. Group discussion ***7***

Review and Reflect

Learning objectives

Upon completing this chapter, the reader will be able to:

- Understand the feedback loop;
- Rethink the causes of plan variances; and
- Understand a new spreadsheet policy.

I. Review actual against plan

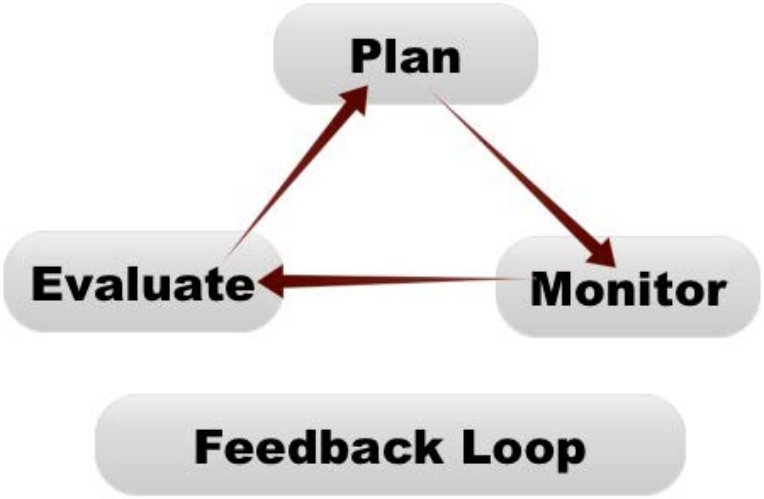
The year-end is finally complete, the closing is accomplished, all the accruals are finished, and the final financial statements are in the can. While we might determine that this is a great time for a ski vacation, actually we need to recognize that it is the beginning of the planning season. What, you say? You mean that it is only the beginning of February, and already we need to start the planning process? The answer is yes. We need to always remember that planning is a continuous process, and not an event.

In traditional organizations, the operating departments normally dread this part of the process. Here is where people are called on the carpet and made to explain why they missed their numbers or had departments that had low sales or high expenses. That is the part where people are made to be "accountable" for their actions.

In the new-style organization, the situation is totally different. This part of the process also looks at the actual against the plan; however, it is not seen as a time of punishment or reward, but the time is seen as more of a reflection. What happened during the year? What was different in the market, or what occurred for which we didn't adequately plan? If there is any blame thrown around, it is more about where the planning process went wrong rather than what mistakes the operating departments made.

A. Feedback loop

One of the greatest problems that occur in organizations is that they spend huge amounts of resources on planning, but then they do relatively little with the result. This is where the feedback loop comes in. The system of integrated planning recognizes that we plan, and then we monitor the actual and see how that compares with the plan. Finally, we evaluate and formulate action plans on things that we have learned from the process.



B. Plans must be realistic

One of the more common problems with planning is that often it is seen as unrealistic due to something happening. When this happens, people involved with the process are frustrated, and no one takes the planning process, especially variances, seriously.

1. Case study

There is a true but old story about a bank holding company in New Jersey. The organization started a non-bank finance company targeted into a very narrow, but growing market. The company discovered a unique niche in the market, and consequently the company's growth took off. In fact, in the first couple of years it enjoyed growth of several hundred percent both in assets and profits.

When the third year came around, management was asked to produce a plan for the fourth year. Management carefully looked at the market, the company's position, and projected a growth rate of 60% for the coming year. The group worked on the plan, calculated everything out, and brought the plan to the CEO for approval. He looked at it, and quickly told the budget manager to do it over again with a much lower growth rate.

"Why" said the budget manager, "I've done all the analysis, and I'm pretty sure that is the correct number."

The CEO quickly said, "I don't doubt it. I agree that we will reach that level. But I can't take that kind of plan on board. You have to understand that bankers and bank boards are used to seeing growth rates in the single digits. I can't take them one with anything like that kind of growth."

After some negotiation, the budget manager prepared a plan with a growth rate of 15% and it was accepted by both the CEO and the board. For the entire next year, the board met and reviewed the budget that showed variances in huge percentages. The budget team was frustrated and demoralized because it had done a lot of work for nothing. More importantly, the company had no real plan to use for good management.

This is probably one of the classic examples where politics can completely ruin any serious planning effort.

C. What causes variances?

There are three primary reasons why variances occur.

1. Faulty assumptions

As we will see throughout the program, good planning is based on a lot of assumptions, statistics, and mathematics. While we can use the most sophisticated methods, many of the assumptions can be wrong causing a faulty result. This can include such things as the economy, customer behavior, supplier behavior, or similar things.

In fact, the sophistication of the planning methods can sometimes actually hurt rather than help the organization reach a good plan. For example, people make assumptions about things like the economy, the market, the competition, and similar factors. If we then put those assumptions to a lot of very sophisticated statistical analysis, the fact that the assumptions could be faulty becomes somewhat hidden by the sophistication of the analysis.

For example, in capital planning, assumptions are made about future anticipated cash flows. Once those flows are made, the assumptions can be put to several tests like ERA, IRR, PV, and MIRR. In fact, we can subject the assumptions to all of those tests and a couple more. We can draw a very complicated Excel spreadsheet demonstrating this analysis, and we will make the decision based on that analysis. If we are not careful, the sophistication of the analysis starts to help us forget that the cash-flow assumptions are for periods well out in history and are subject to a lot of speculation. The old “Garbage in-garbage out” cliché is true. Just because we have great analytical methods doesn’t change the fallibility of the assumptions.

2. Faulty analysis and math

While this does not happen too many times, it is one to watch for. There are many things hidden in spreadsheets and sometimes the spreadsheets are not properly audited for arithmetic accuracy.

For this reason, we suggest that a spreadsheet policy be implemented throughout the entire planning process. That policy is that all spreadsheets are divided into two specific parts with one being labeled, “assumptions” and the other labeled as, “output.” The assumption section should not have formulas and the output section can never have assumptions or whole numbers. This practice accomplishes two important things. First, assumptions are prominently displayed in one spot for everyone to see. The second advantage is that a whole number assumption cannot be buried within a formula where it wouldn’t be easily found.

Following is a simple spreadsheet where we have included both assumptions and formulas together.

Total market	1,000,000,000
Market share	10%
Sales	100,000,000
Cost of sales	30,000,000
Gross profit	70,000,000
Operating expenses	50,000,000
Net profit	20,000,000

Here is the same spreadsheet, but after dividing the assumption from the output section.

Assumptions	
Total market	1,000,000,000
Market share	10%
Cost of sales %	30%
Operating expenses	50,000,000
Output	
Sales	100,000,000
Cost of sales	30,000,000
Gross profit	70,000,000
Operating expenses	50,000,000
Net profit	20,000,000

Following are the same two models showing the formulas rather than the results.

Total market		1000000000
Market share	0.1	
Sales		=C3*C4
Cost of sales		=C5*0.3
Gross profit		=C5-C6
Operating expenses		50000000
Net profit		=C7-C8

Assumptions		
Total market		1000000000
Market share	0.1	
Cost of sales %	0.3	
Operating expenses		50000000
Output		
Sales		=C13*C14
Cost of sales		=C20*C15
Gross profit		=C20-C21
Operating expenses		=C16
Net profit		=C22-C23

3. Reality was wrong

Often the thing making the plan erroneous is some kind of unforeseen event such as a disaster. A fire, a natural disaster, or something similar cannot be predicted and should not be planned. Yes, our risk management plan will take this kind of thing into account, but the eventuality can't be put into our regular operating plan.

4. Not finding fault, but trying to improve the planning system

We need to remember that this analysis of why variances occur is not about trying to pin blame on some individual or department, but it is trying to continuously improve our planning process. This is probably one of the greatest differences between the old way of budgeting and the new way of planning.

D. Importance of flexible planning

There is a philosophy out there in the planning community that will recite the first commandment of budgeting, "Thou shalt never change the budget." The mantra was developed to prevent untrusted managers from changing the budget in order to look good. In the days of the command-and-control management philosophy, that might have been true. In today's modern management philosophy, it can lead to some real problems.

The case study mentioned above is certainly a good illustration. If we can't have a realistic plan, we can't use it as a tool. If it means changing the plan to make it realistic, then we should be able to do that so that it can be used as a viable management tool.

The following example illustrates why a more flexible planning tool is both more realistic and useful. In the first example, we see that the company has a fixed plan with both variable and fixed expenses as hard numbers. Something may have happened in the economy or with assumptions, and sales came in $100,000 under the plan. Fortunately, however, variable expenses also came in under the plan, and that

helped recover some of the problem. In this case, we will assume that the fixed expenses came in exactly as planned. In this case, the expense control might have been praised for reducing expenses.

But look at the second plan. In this case we will assume that we were able to adjust the plan because we saw the changes in the economy. Consequently, we actually came in $50,000 above the revised plan. But, more importantly, this time we set the plan with the variable expenses at 50% of sales instead of a hard number. Consequently, when we adjusted the plan to reflect our expected drop in sales, the plan also adjusted the variable accordingly. At 50% of sales, variable expenses should have been about $425,000. But they came in at $485,000, or $60,000 above plan. With this added analysis, we would be concerned about expense control rather than content with it as in the first example.

The concept of a flexible plan is really simple. As it is made up, the various variable expenses are entered into the spreadsheet in their variable relationship rather than as a hard number. For example, cost of sales is entered as a percentage of sales rather than a hard number. In addition, other types of variable expenses might be entered as percentages of the variable they are tracking. Fringe benefits would be entered as a percent of salaries, not as a percent of sales.

When we enter all of the relationships into the spreadsheet, then the plan will change as we make adjustments during the year. Creating variances against those flexible numbers will be far more useful in determining action plans for the next year.

	Budget	Actual	Variance
Sales	1,000,000	900,000	(100,000)
Fixed expenses	400,000	400,000	-
Variable expenses	500,000	485,000	(15,000)
Total expenses	900,000	885,000	(15,000)
Profit	100,000	15,000	(85,000)
Sales	850000	900000	50,000
Fixed expenses	400000	400000	-
Variable expenses	425000	485000	60,000
Total expenses	825000	885000	60,000
Profit	25000	15000	(10,000)

Looks Good

Doesn't Look so Good

You might say, "I can't do it since my old-style organization says we aren't allowed to change the budget." My answer to that is simple: Keep the budget in place but manage from a "financial forecast." All the forecasts will be is the old style with the relationships. That will be a useful document for management, but you will keep the "Thou shalt never change the budget" crowd happy. The need for a more flexible approach to planning was proven in the recent pandemic.

II. Correction

Ok, we made a plan, viewed the actual results, and analyzed the variances. Now what do we do?

A. What was the cause?

A variance tells that there is a potential problem that possibly should be solved. The first thing we should do is to determine where the problem might be located.

1. Operations problem or planning problem?

It's interesting to note that in the old-style organization, there is a usual assumption that any variances are caused by management problems in the operating departments. This is probably due to the political nature of the company with planning departments defending their positions. In the new-style organizations, the assumption is that the most common cause of the problem is that it is a planning problem, and not an operational one.

2. Is this the true cause?

Discovering the cause of a problem may be different from finding the true cause of the problem. Sometimes, the true cause of a problem can be politically incorrect, and thus the problem is never solved because the organization was unwilling to get to the true cause.

As an illustration, consider the following case study.

3. Case study

A small privately held manufacturing company seems to have a planning problem in forecasting sales. No matter what the planning department does, the sales plan always seems to be low with the resulting problems in purchasing, manufacturing, and inventory management. Bob, who came from a sales background and is a very firm believer in incentive systems, runs the company.
Part of the sales incentive system is to have the sales force handsomely rewarded when they are able to sell above their sales forecasts. Since they are responsible for forecasting sales for the next year, they are obviously rewarded for keeping their projections low making it easier for them to make their numbers and get the rewards. Naturally, Bob knows this, and therefore is always pushing the sales team to make higher forecasts. The final sales plan actually includes negotiated numbers.

The true cause of the problem is obviously the incentive system; however, since Bob put it into place, and feels that it works to stimulate the sales force, nobody in the planning department is willing to try and convince Bob that there might be better ways to incentivize the sales force without hurting the planning process.

B. Will it happen again?

There is an interesting political aspect to this question. In more political environments, there is a risk-averse mentality thinking that every problem has to have a solution. Consequently, we often spend loads of money making sure something won't reoccur, even when that reoccurrence is extremely remote. This is especially true of our governments; however, it is often seen in our more bureaucratic companies. As we reflect on our variances, we need to take a good look at the potential of reoccurrence before we set out to spend a lot of time or money on fixing the problem. Will we see another pandemic in our lifetime?

C. What is the financial effect?

We always need to analyze both the percentage variance and also the whole number. After all, we may have an account with a variance of several hundred percentage points, but the real difference is a relatively small amount of money. Materiality is key in determining what changes should be made.

D. What is being done or should be done?

As we reflect on the variances, we need to look at what may already have been done to fix the problem. If nothing, then we need to formulate action plans to achieve positive change.

E. Are there implications for other managers?

We may have discovered a problem with either our planning or operations in one department, but we also need to ask ourselves if this problem could occur in another department, but just has not been spotted yet.

III. Group discussion

In your small group, discuss the case study under II. 3. A. What are the incentive systems in the organizations represented? How do they affect the planning process? Has anyone dealt with this problem?

The Business Plan

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B. Integrated-planning business plan **1**
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2. Changes in the location of knowledge *3*
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The Business Plan

Learning objectives

Upon completing this chapter, the reader will be able to:

- Understand the risks of the business plan;
- Use two important models in formulating different plans; and
- Identify some of the things that are changing business plans.

I. Business plan basics

A. Traditional business plan

We often think of a business plan as something we write when we need something. The real purpose of the plan isn't really to plan, but to market the plan we already have in place and try and convince some person or company to give us something. We may be asking for partners, strategic relationships in the business, financing from a bank or other lender, or some other similar request. When we think of it, the plan is really a marketing piece and not really a plan.

The traditional use of the business plan is more for a start-up organization and provides a way to make sure we are planning everything before we really start.

B. Integrated-planning business plan

For our purposes in this program, we are looking at the business plan more as a way to analyze and understand the business model. We will ask questions such as, "What are we doing?" "What makes us different?" and "What are our key strengths and weaknesses?" In addition, we will look at the business model as an important factor of risk. While most companies have detailed risk plans, we often discover that most of those plans do not recognize possibly the greatest risk – the likelihood of a change in the industry's business model.

We need to determine if our business model is still valid. This model may have been what started the company, and the model was valid at that time, but is it still valid today? Could it be that our problems stem from the fact that the business model is changing around us, and we are not keeping up with that change?

C. Several business plans

While the traditional business plan seeking financing or partnerships will be a specific document for the organization, the integrated-planning model may easily have a different business model for each product or service. In a small company with only one product or service, it has only one business model; however, the larger organization with many different sources of revenue will have separate business plans for each product or service. After all, the business model of how we make money will be different depending on the product.

D. Uses of the business plan

1. Financing

As was mentioned before, the primary use of a business plan is to obtain financing or partnerships. Banks traditionally ask for a business plan as part of the application process. However, it also has several other important uses.

2. Recruiting

The business plan, or some parts of it, will often be used as a document to explain the organization to prospective employees, especially at the management level.

3. Alignment

Possibly one of the most important uses of the plan is to help align the employees of the company. Without the knowledge of how the business operates, often employees have no idea of how they fit into the entire scheme of the organization. People in one part often have no idea of what happens in another part, and they don't know actually what the company does to create value for the customer. Thus, the business plan, or some parts of it, becomes a great training aid informing the employees exactly how the business works.

II. Need for the business plan to be updated

Unfortunately, most companies produce a business plan for the specific purpose of obtaining financing, then put it in a drawer, and forget it. It is only taken out and revised as needed when the firm needs to either change lenders or obtain more financing.

A. The world is changing

The primary reason for a business plan in this rapidly changing business environment is to recognize that change, continuously evaluate the risk of the business model, and what can be done to keep it up with the changes in the economy.

B. Some key business changes

1. Moving from hierarchical to crowd-driven

Philosophically, this is one of the greatest changes and it is happening all over the world. When we look at history, it's also interesting that the change has happened before, but in different ways. Authoritative systems in governments and organizations have always been with us. Continuously, populations have rebelled against that authority, and change has occurred. We can go back literally thousands of years and see how people have wanted freedom and have fought, protested, and agitated for that freedom. We can analyze the Reformation, various revolutions, and several other movements in that way.

Today, it is more about changes occurring due to the Internet, but they actually have to do with the move for authority to the people.

A great example of this is with the encyclopedia. Not many years ago, the knowledge of the "truth" was housed in the Encyclopedia Britannica. Needless to say, there was a lot of hierarchy in the process and a fact had to be vetted by many experts before it was deemed ok for the prestigious volume of books. Today, that kind of knowledge is stored in the online encyclopedia, Wikipedia.

When Wikipedia was started, the educational elite had a fit. Often schoolteachers and professors wouldn't allow it to be cited as a source in a term paper because the facts had not passed the hierarchical tests of the authority. Today, we recognize the value of the concept, and the Encyclopedia Britannica is virtually out of business. We will see this trend repeated in many things happening today, and it's important to recognize it as we consider our business model.

2. Changes in the location of knowledge

We have become accustomed to obtaining knowledge from traditional hierarchical sources. These may have been our bosses, books, libraries, and similar items. Now, knowledge is on the Internet and/or in groups. If we want to know how to do something we might "Google" the item or even search on YouTube to see if there is a video telling us how to do it.

Publishing has changed. Believe it or not, there are literally hundreds of millions of blogs presently on the Internet. Actually, no one knows the total number, but there are over 50 million just on WordPress alone. Some dismiss the blogs as illegitimate sources of knowledge, but all you have to do is subscribe to a few of them, and you will see how much information is available and how easy it is to get it. A couple of my favorites are: *Fast Company*, *Business Insider*, Seth Godin, and the Online Learning Update. I get these in my mailbox every morning, and they keep me up on a couple of the subjects in which I'm highly interested.

This huge trend affects (and will continue to affect) both our business models and our everyday work. When we want our employees to gather more knowledge, we will no longer send them to an expensive training program in another city where we have to pay travel and expenses. We will just encourage them to subscribe to a blog and get the training directly to their mobile device at no charge.

3. Hyper-competition

As we have said from the beginning of the program, the only two things an organization must do to be successful are to serve the customer better and do it efficiently. Well, the trend is that both of those are rapidly causing competition to grow at an exponential rate. We know that there is someone out there who will do a better job at one or the other of those two items unless we are constantly nimble and change first.

Great examples of these are education and book publishing. In both cases, they have experienced changes where others have come up with business models that both served customers better and also did it more efficiently. Now we have self-publishing at a fraction of the cost of going through a traditional publisher, and we have new education models where people are learning at a fraction of the cost.

Productivity is often the key to recognizing where changes will happen. When the productivity is low or the prices are increasing much faster than inflation, we can be relatively sure that someone or some company will exploit the opportunity and find a more efficient way to deliver the product or service. When that happens, the business model will change quickly.

4. Commoditization of knowledge

Knowledge used to be considered one of the most important competitive advantages of an organization. Consequently, the firm spent huge funds to recruit, train, and maintain the best and the brightest. Today, a firm can quickly outsource a job or find out information from China, India, or from many other places at a much lower cost.

Today, networks of knowledgeable people working across time and space can make informed decisions and solve complex problems in ways they couldn't even dream of only a few years ago.

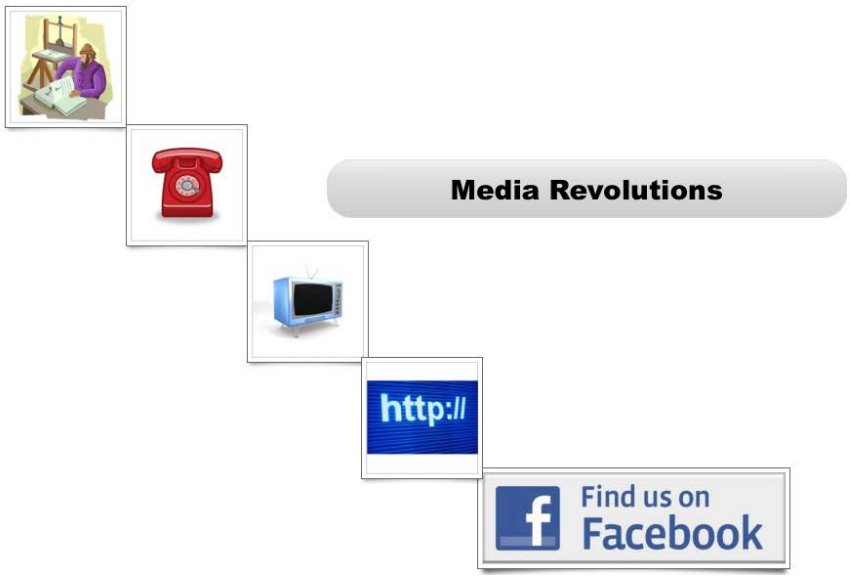
5. Ever-escalating demands for social accountability

The organization can't get away with anything anymore. Some place there is a person or organization out there watching what's going on. The other day I heard of a high-school girl putting up a blog where she took photographs of her school lunches and posted them online with comments. She encouraged others to share their comments, and the blog became very popular with the students.

Not enjoying the embarrassment, the school administration told her that she was no longer allowed to take photographs of her school lunches. She posted that she could no longer post the pictures, and the fact went viral over the Internet. Within hours, the school officials backtracked on their policy, and she was allowed to continue.

6. Media revolution

When we think about media, we see that it has had several revolutions over the years:



7. Changes caused by the pandemic

The recent pandemic forced many evolving changes in business plans to take a rapid turn. Restaurants had to adapt to takeout and delivery models, education had to shift to online learning, and many organizations were forced to adopt other online models.

C. Case study

Nike, the company primarily known for sports shoes and related equipment, has recently been selected by Fast Company Magazine as the most innovative company in America. Really? You mean that a shoe manufacturer is considered by some to be more innovative than the high-tech giants like Apple and Microsoft?

The reason is that it has been transitioning from shoes and clothes to software. It now has various products that a person might wear, but also will talk to a wrist computer that will keep track of various fitness statistics. A recent quote by Nike's CEO, Mike Parker tells it all.

"Business models are not meant to be static. In the world we live in today, you have to adapt and change. One of my fears is being this big, slow, constipated, bureaucratic company that's happy with its success. That will wind up being your death in the end."

D. Risks of business models

There is reason to believe that a significant change in the business model could represent the greatest risk that an organization faces. Think about what happened to companies like Borders and Barnes and Noble when Amazon completely changed the business model of book distribution. Now, we can be sure that giants like Wal-Mart are looking at the Amazon model and seeing the threat to traditional retail.

"A revolution is coming to U.S. higher education, one that will sweep away an archaic business model, erase the value of many venerable brands, and enhance the brands of new entrants and nimble incumbents. It will be a tough time for many U.S. colleges and universities but great news for the rest of the world."

Source: "The real Winners of the Coming Revolution in Higher Education," by Bruce Guile and David Teece, Forbes Magazine, 3/12/13

One of the most recent and significant changes in business models is developing in education. This represents a great example of how a business model can be rapidly changed.

A couple of years ago, a professor from Stanford, and entrepreneur from Google, and two prestigious universities from Boston, formed three different institutions and are now providing college and graduate-level courses to the public for free. That's right, absolutely free – no change, no gimmicks, and nothing to buy. Coursera, Udacity, and EdX are the three organizations, and each has several courses available.

Stanford professor Sebastian Thrun opened enrollment of his course, Introduction to Artificial Intelligence, and he received 160,000 students. Since then, all three institutions have partnered up with several other colleges and universities, and the MOOC (Massive Open Online Course) has been born.

Needless to say, everyone in higher education is looking at this development wondering what it will do to the traditional model. When we take a course, even at the normal course of production, but open it up to hundreds of thousands of students, the cost per student plummets. We have to ask, "How will this change the business model of the traditional university?"

Another big question people are asking is, why are the universities doing this, and how will this business model make money? The answers are varied. Certainly, there is a need to bring down the cost of higher education. Education's productivity is extremely poor, and there is a lot of room for greater efficiency. Universities may also have an altruistic feeling about making their educational content available in an economic way to thousands of students worldwide.

Other people are suggesting that the companies will have an opportunity to "monetize" the efforts in the future by charging for job placement or testing, charging companies for the records, and gaining from the introduction to other courses for which they may charge. School's out on where this will go, but we can be sure that it will upset things in higher education.

E. Group activity

In a small group, choose one of the organizations represented and brainstorm how the business model in that industry could be changed thus causing a real risk for the others in the industry.

III. Tools to discuss change in the business plan

A. Where are we now?

Before we can understand where the world is going, and apply that to our business, we need to take a good hard look at where we are today. We do this through the following three-question set.

1. What is our business?

While that seems like an easy question, surprisingly it takes a lot of good thought to really define what we do. And it is extremely important that we do so in the proper perspective. For example, probably the railroad Penn Central, described itself as a railroad company. Consequently, it totally missed aviation. On the other hand, if it had described itself as a transportation company, possibly it would be with us today.

Is a restaurant in the food business, or is it in the entertainment business? Or is it in the business of providing family members with the opportunity to eat without having the effort of preparing, cooking, and cleaning up?

Generally, when we ponder this question, we should define our business in as broad a term as possible. That will enable us to change as the world changes. However, if we define ourselves too broadly, then we miss the need of being specific.

2. Who are our customers?

This also seems like an easy question, but it isn't. Take, for instance, an auto parts store. Are its customers the auto repair shops in town or are the customers the walk-in trade? In this case, the company has two sets of customers, but that can easily confuse things because we have to be careful to please both sets of customers without hurting one or the other.

A great example of this is being faced by numerous companies that sell both through dealers and also directly to the public through a website. Somehow, it needs to protect the dealers for them to make a profit, but on the other hand, it must offer an inexpensive enough product to be competitive with similar products on the Internet. It may happen that the company has to form two brands with each distancing itself from the other (and have one business per brand). If they don't do this, and if a competitor forms a new brand that only serves one of the two customer groups, the company mentioned will have problems with profitability.

3. How do our customers determine value?

We will never understand our business if we don't understand our customers. The first step in understanding our market is to understand why our customers buy ours or another's products. In the restaurant, do the customers want good food, good service, or something else?

B. Where will we be?

The above question set is fine to understand our business, but that isn't enough. Like so many organizations, if we don't go beyond where we are now, we will never become innovative and keep up with the times. Consequently, we need to look at and analyze the following question set.

1. What will our business be?

If the world keeps changing the way it is changing now, what will our business become? Pretend you are in a university and know what you do about MOOCs. The importance of this question will force you into evaluating what will be happening to your business. Will you still be relevant? Will you have to cut costs? Will you be facing competition from another unexpected place?

2. Who will your customers be?

If you know what will happen to your business due to changes in the world, you need to take another look at who your customers will become. Will they be different from who they are now? Will there be any demographic changes that should be considered?

3. How will those customers determine value?

Will the customers of the future be thinking and acting any differently than the customers of today? Are the present trends, many of which we discussed above, going to be changing how those customers will determine value?

C. What should we be doing?

After taking a good look at where we are, and where we will be if there are no other changes, we finally have to evaluate what we should be doing. We do this using the following question set.

1. What should our business be?

Obviously, this is the punch line. Here is why we are doing this exercise. We need to take what we are, what we will become if we do not change, and think about what adjustments need to be made in our business model.

2. Who should our customers be?

In the same way, we need to again look at our customers, what they will become, and determine what they should become. How should we revise our marketing plans to determine if we should change our plans with respect to determine to whom we will offer our products and services?

3. How will those customers determine value?

As the final part of the exercise, we need to look at how those newly defined customers will determine value. Will they see service as the most important thing? Will it be price? How should we react to some of those changes?

Did the answers to these questions change as a result of the pandemic?

D. Planning matrix

Another great tool to determine what business we should be or concentrate in is the following planning matrix. This matrix looks at both the market and our organization and determines what should be our

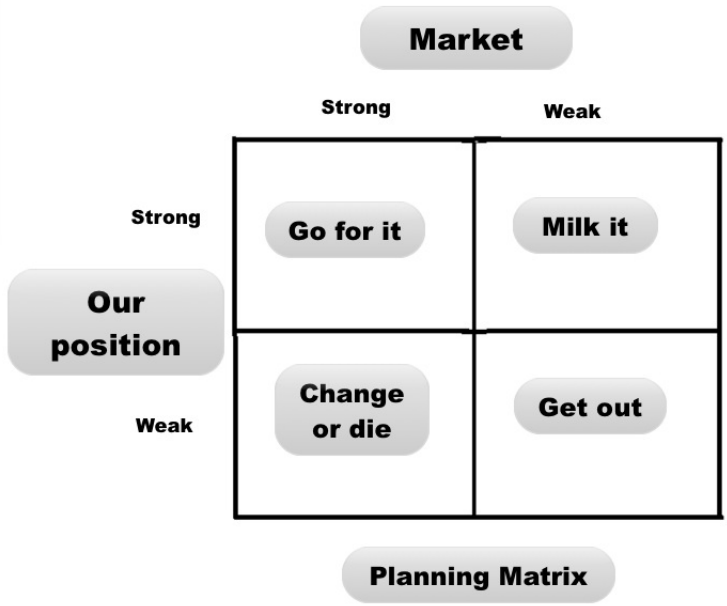
strategy in seeing a product mix. The matrix is generally for organizations with more than one product or service and helps them choose where they should be placing their investments and efforts.

1. Market

The matrix looks first at the market to determine if it is a strong or weak market. There are actually only two things that we need to determine to put the market into one classification or the other. Those are demographics and the nature of the market. If the demographics are good, the market is growing and with people with plenty of money. If the market is not growing and the people don't have money, it would be considered weak. If the market is considered a commodity market with all the products and services seen as quite equal, then that would be a weak market. If the products, on the other hand, are highly differentiated, then that would be considered a strong market.

2. Company position

The second thing we need to do is analyze the company's position within the market. It is strong if it has a good reputation and low costs. If, on the other hand, it has a questionable reputation or high costs, then it would be considered to be weak in the market.



3. Using the matrix

The use of the matrix is relatively simple. If we determine that we are strong in a strong market, then that's where we do our investing. If, on the other hand, we are weak in a weak market, we should probably get out of the market and invest elsewhere. The other two quadrants are different. If we are strong in a weak market, we should probably milk it as best as we can and hope that the market comes back. If we are weak in a strong market, then we have to make some changes to either build up our reputation or cut our costs so we become strong in that market.

IV. Steps to the business plan

A. What is an entrepreneur?

As we discuss the various steps to a business, I'm reminded of a definition of an entrepreneur that I picked up along the way:

An entrepreneur is a person who sees a problem and puts together a group of people to solve that problem in an economic fashion.

I love the definition because it actually spells out the most important parts of the business plan, and especially the parts that need to be sold to any investor or lender. Let's take the definition apart.

1. Sees a need

There must be a need or else why should we spend the time, effort, or investment for the project? Sam Walton saw the need for a less expensive way to distribute product to the masses. Jeff Bezos saw a need to distribute books in an easier and more efficient way, and Herb Kelleher saw the need for a regional airline to serve three cities in Texas in a more economic fashion.

A business plan has to start with a need that is not being served or can be served in a better or more efficient way.

2. Can solve the problem

I have met plenty of people who see needs all the time. Their usual comment is something like, "Somebody should do something about that." That's fine, but who? Is the person willing to find out how to solve the problem? It's my opinion that there are plenty of problems out that can't be solved.

3. Put together an organization

Just knowing that there is a problem, and even knowing how to solve the problem are only two parts of the puzzle. The true entrepreneur must be skillful enough to put together and lead an organization. That's why good entrepreneurs are leaders.

4. Economic fashion

Finally, a lot of people see problems, know how to fix them, and maybe are good leaders. But their solutions can't be done in an economic fashion. It's like saying that we should solve unemployment by moving manufacturing to the US. It's a nice idea, and there are a lot of leaders who have proposed the solution. But, if the international economics don't work, the project will fail. As long as we live in a free-market economy, we will have to have economic projects to have them accepted in the long run.

5. Put it together

While the definition of entrepreneur isn't exactly the business plan, it shows the four key steps that have to be included to make the business plan work.

B. Steps to the business plan

There is no magic formula to a business plan; however, most models have something like the following list for a complete business plan.

1. Executive summary

While this is the first step in the plan, it should be the last part written. After you have completed the entire plan, then go back and take the most important parts of the plan and include them in a one-page summary of the entire plan. As you are completing the executive summary, be sure to go back to the definition of the entrepreneur and make sure that you have included the most important parts of the plan.

2. Company description

In this section, you need to talk about the company especially establishing the need that has been determined. Without a need that hasn't been met, there is no need for the organization. This business plan model is based on the well-known and tried, "problem/solution" model.

a. **Legal establishment** - Will this be a corporation, LLC, partnership, or some other legal entity? State the reason for the choice and how it will affect the organization.
b. **History** - What has been done up until this point?
c. **Start-up plans** - Where are you going from here? How will the start-up progress? Be sure to realize that you will need to integrate this part to the financial plan step.

3. Product or service

What will be the product or service, and how will this product or service meet the need expressed above? It is important to tell the audience how your product or service will be different from the competition. If you can't be different, there is a serious question if you should be in business. Nobody ever made a big splash by following the leaders.

4. Market analysis

What are the demographics of the market? Show how the market is changing, and especially how you will be able to meet these changes. In this section, you need to show your organization and the competition how your organization will be different from and better than the competition. This is also the spot to differentiate your organization and show how you won't be just a commodity, but you will be able to be different. Finally, you need to show where you are on the growth curve.

5. Management team

In this section, you need to make the case why this particular management team is the one who will be able to solve the problem. After all, if there is a problem that hasn't been solved before, then other management teams have been unsuccessful in any other attempts. You have to show why this management team is different, and has the attitudes, skills, and approaches that will be different and successful. Experience is important in this section, but it is necessary to point out why that experience is important in solving the problem that has been presented.

6. Strategy and implementation

This section talks about the company's strategic plan and how you will take that strategy into specific tactics, how management responsibilities will be aligned, and how the organization will operate. If specific management systems are included in the plan, they should be discussed at this point.

Today, people want to know the plans of the company, and specifically what will be the plans pertaining to the Internet.

7. Financial analysis

In many business plans, all the space is taken up in this section. We suggest that you keep the section brief and with summaries, saving the detailed projection for an appendix. That way, the reader will get the message of how the organization will solve the problem in an economic fashion, but you will save the financial proofs for the appendix.

Personally, I like to present more than one forecast of how the organization will look. Scenario planning is a great way to accomplish this, presenting some kind of best-case; average-projection; and worst-case scenario. Naturally, if you are applying for financing, you need to show how the lender will not lose anything even in the worst-case scenario.

Strategic Planning

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Strategic Planning

Learning objectives

Upon completing this chapter, the reader will be able to:

- Understand the difference between strategic and incremental planning;
- Know the new style of strategic planning; and
- Recognize the importance of departmental strategic planning.

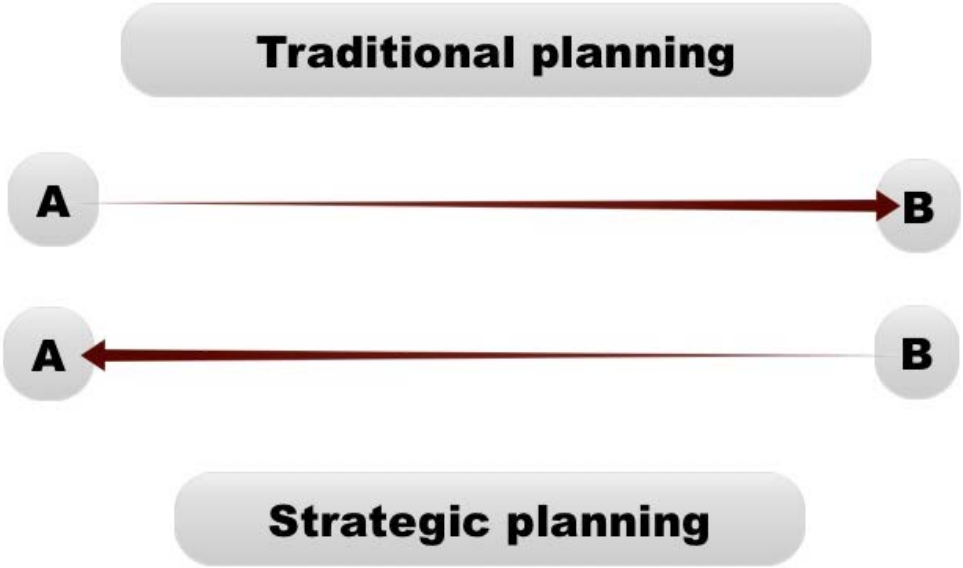
I. Introduction

This section is about strategic planning; however, there is a very fine line between business planning and strategic planning. In order to construct a good business plan, obviously the organization needs to understand its strategy. Consequently, it needs to do considerable strategic planning in the formation of the business plan. On the other hand, many of the tools we discussed in formulating the business plan, can also be used as part of strategic planning.

II. Difference between strategic and incremental planning

Traditional planning and budgeting look at where the organization is now, and attempt to project where it will be sometime in the future. Normally, this time is one year away, and the document is called the budget. We have already discussed the problems of the traditional budget, but now we need to look at the alternative.

The alternative to the traditional budget is a strategic plan that is for a long period of time and has the iterations of the plan work all the way from five-years to the one-year annual plan.



All planning is a process of going from point A to point B. A is where we are now, and B is where we want to be at some timeframe such as five years. Traditional planning starts at our present location and moves to the future. In strategic planning, we look first at where we want to be in the future, and then come up with a plan on how to reach that target.

Many organizations do both strategic and traditional planning, but they do them separately, as completely different events, and with different people. The greatest problem with that approach is that the two processes are disjointed causing a lack of alignment.

A. Old-style strategic planning

This is a great process where the top management of the organization goes off to a nice resort-type off-site location and thinks about the future for several days. They come back with a strategic plan, and may or may not tell the rest of the organization what that plan might be. Unfortunately, usually many or most of the planning staff in the company never go to the retreat; however, they are the ones assigned to come up with a good budget for next year.

B. Old-style incremental budgeting

The budget group, on the other hand, looks at planning in an incremental scope in which they determine where we are now and try and come up with good numbers of where we will be in the future. They are thinking from point A to point B, and where usually point B is at year-end the following year. Note the problem with the old system. Senior management is working from B to A, but the budget people are working from A to B. Now do we understand why the old-style planning can easily be dysfunctional?

III. The need for strategic planning

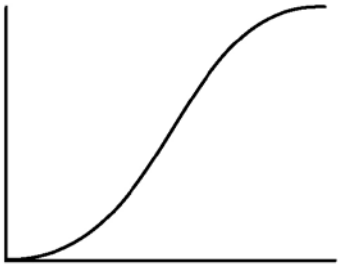
While we believe that strategic planning is always required, there are several situations that would make the exercise even more important.

A. Shrinking margins

One of the first signs of trouble for an organization is falling margins. Breaking the concept apart, we need to look first at the gross profit margin (gross profit/sales), to get an idea about both our pricing and also the cost of providing our product or service. If these margins are slipping, then we have an idea that there is something wrong with our strategy. Is our market changing? Is something happening with our competition?

B. Slowing growth

Let’s remember the basic and typical growth curve. If growth has started to slow down, especially when the economy is strong, we need to take a look at our strategy to make sure we are pursuing changes that will start a new product or service that will have a faster growth potential.



If we see our growth diminishing due to economic conditions, we also need to take a good look at our strategy to see how we can overcome the economic conditions.

C. Declining asset productivity

The return on assets ratio, (net profit/total assets) is a great indicator of our efficiency. When it declines, we need to find out why, and often it will show a need for some new strategies.

D. Eroding market share

One of the most important things to watch, but also one of the most difficult things to know, is our market share. Also, we need to properly judge how we are measuring our market. For example, if we are an amusement park, we probably will get better information if we are measuring our market share against total entertainment dollars spent rather than against other amusement parks. The same is true for education. Should our public school system compare itself with other school systems, or against other educational methods such as charter, private, and home-school options?

E. Higher customer churn rates

If we are maintaining a steady level of customers but having a higher churn rate because more customers are leaving, we better look at why. From answering that question, we can determine some new strategies to better serve and hold our customers. We need to remember that the cost of acquiring a new customer is always much higher than keeping the ones that we have.

F. Proliferation of new and unorthodox business models

Are the business models in our industry changing? If so, we better do some serious strategic planning and come up with some positive changes to our own business model that puts us back on the leading edge of our industry.

G. Falling price to earnings ratio

If we are a public organization, often our price/earnings ratio will tell us what the outside world and analysts think about our strategy and business model. If the ratio declines, that may be an indication that the analysts are thinking about the market a little differently than us. It is an indicator that we should look at our strategy.

H. Increasing ratio of marketing costs to revenue

This is an interesting ratio that tells us the efficiency of our marketing efforts. If the ratio is increasing, it means that our efficiency is declining and can be an indicator of a couple of things. It could be that we are losing economic impact causing us to spend more marketing money to gain the same customers. Or it could also mean that we need to take a look at our marketing strategy because things about our customers and prospects are changing.

IV. What is the vision?

Regardless of having a new enterprise or one that has been going for a long time, we need to determine where we want to be in the future. Do we want to grow? Do we want to change? Do we want to have more customers? Do we want to make more profit, or serve more people if we are a non-profit?

These are all things that we can articulate, but can we measure them? In planning, we have to have an idea how to measure success. We can say that we want to be the “best,” but what does that mean? Best is hard to measure, but the most profitable, or having the most customers, or having the greatest market share are a little more specific and somewhat easier to measure.

A. Smart goals

1. S

S stands for specific, strategic, significant, stretching, and simple.

2. M

M stands for measurable, motivational, manageable, and meaningful.

3. A

A stands for attainable, appropriate, achievable, agreed, assignable, actionable, adjustable, ambitious, aligned, acceptable, and action-focused.

4. R

R stands for relevant, results-based, and realistic.

5. T

T stands for timely, time-framed, time-based, and time-limited.

B. How do you determine success?

One of the greatest problems with planning and goal setting is making sure that everyone is on the same page with what is success. We all want to be successful, but what does that mean? By forcing the strategic-planning project, we are forced to sit down and together determine what we really want. Then, as a group, we are in agreement about what is success.

Tangibles are easy to measure when we are stating the vision, but often intangibles are far more difficult to define and measure. For example, let's say that included in our vision statement is to have an organization with extremely happy and dedicated employees. That's a wonderful vision, but how will you know you have attained it? One way is to develop a survey asking a simple question like:

> "On a scale of 1-10 with one being completely unhappy, and 10 being overjoyed; how would you measure your level of happiness with this company?"

For even more information, you may want to break the question into parts with several specific questions about happiness with each one of the questions measured on the same scale.

1. Statistical accuracy

Whenever we do a survey, there will be people who don't like the results and challenge the survey on the basis of statistical accuracy. The simple answer to that complaint is to use the same survey over and over again while benchmarking the results over time. If the survey shows that we are improving in the item being measured, then obviously, things are getting better. If the survey is showing a declining trend, then we know that we have a problem.

V. What is our mission?

The vision is where we want to be. The mission is how we are going to get there.

Strategic planning usually involves both the mission and the vision. Some planners prefer to show the mission as the broadest element with the vision being more specific. Personally, I prefer to show the vision as the broadest view with the mission as somewhat more specific. Actually, it really doesn't matter a lot as long as you include both.

In the mission statement, management will set some guidelines and strategies of how the organization will reach the vision. For example, let's say that we were a restaurant chain setting a vision of having the greatest market share in the state by five years. To accomplish this vision, we will need to have 20 restaurants by that five-year period. Then, it is easy to determine where we have to be within each of the years leading up to the five-year point.

Another example of the mission concept is with an airline. If its vision statement says that it wants to have the highest customer service rating in the industry by the five-year point, it will have to specifically state how it will reach that vision. Southwest Airlines embraces the concept that if you take care of your employees, they will take care of the customers. If your organization embraces that concept, then it will have to have a mission built around employee satisfaction.

Again, like the vision statement, we need to be able to measure if we are attaining the mission or missions.

VI. Core values

The third part of the strategic-planning model is to have a statement of core values for the organization. This list of values should be relatively short and extremely broad so that people can both understand them and easily recite them. Many organizations have such a list, but unfortunately the list is so long that it reads more like an employee manual rather than a statement of core values.

One of the most famous, and lasting statements of core values is that of Johnson & Johnson. That company has operated under a "credo" that was written in 1943 and revised several times. A recent statement by the CEO of J&J recently made the statement that managers wouldn't lose their jobs over missing their numbers, but they could lose their jobs for violating the credo.

Our Credo:

We believe our first responsibility is to the doctors, nurses and patients,
to mothers and fathers and all others who use our products and services.
In meeting their needs everything we do must be of high quality.
We must constantly strive to reduce our costs
in order to maintain reasonable prices.
Customers' orders must be serviced promptly and accurately.
Our suppliers and distributors must have an opportunity
to make a fair profit.
We are responsible to our employees,
the men and women who work with us throughout the world.
Everyone must be considered as an individual.
We must respect their dignity and recognize their merit.
They must have a sense of security in their jobs.
Compensation must be fair and adequate,

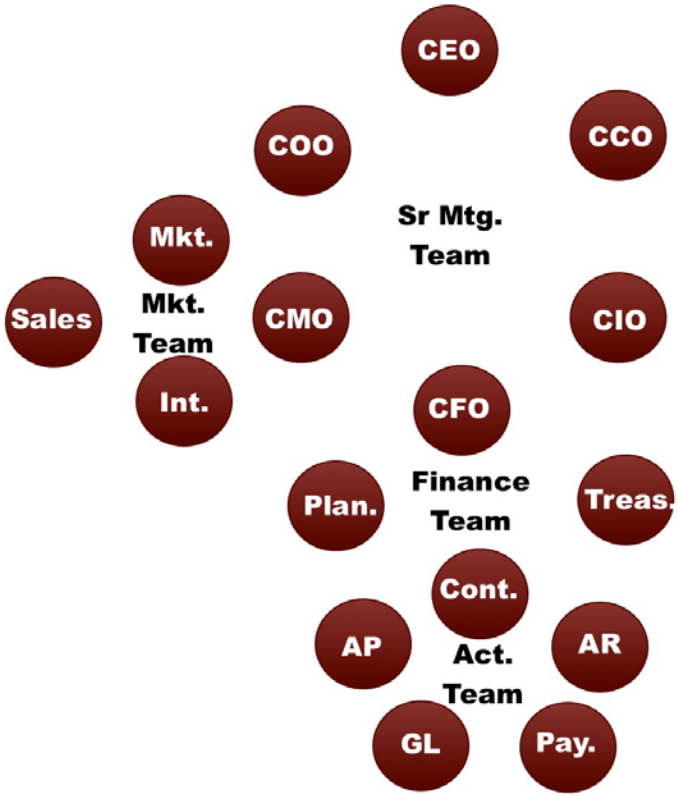
and working conditions clean, orderly and safe.
We must be mindful of ways to help our employees fulfill
their family responsibilities.
Employees must feel free to make suggestions and complaints.
There must be equal opportunity for employment, development
and advancement for those qualified.
We must provide competent management,
and their actions must be just and ethical.
We are responsible to the communities in which we live and work
and to the world community as well.
We must be good citizens – support good works and charities
and bear our fair share of taxes.
We must encourage civic improvements and better health and education.
We must maintain in good order
the property we are privileged to use,
protecting the environment and natural resources.
Our final responsibility is to our stockholders.
Business must make a sound profit.
We must experiment with new ideas.
Research must be carried on, innovative programs developed
and mistakes paid for.
New equipment must be purchased, new facilities provided
and new products launched.
Reserves must be created to provide for adverse times.
When we operate according to these principles,
the stockholders should realize a fair return.

Johnson & Johnson

Many other companies have such statements. Many are shorter and more specific, but all point both management and the employees toward an ethical value-centered environment where everyone pays attention to what is right.

VII. Organizational alignment

One of the most important aspects of an organization is the alignment of its top executives, and the resulting alignment throughout the rest of the company. Some kinds of organizations are known for a lack of alignment, and a large amount of competition and silo building between departments. In other organizations, senior management sets the standard for being on the same page and the rest of the organization always seems to be well aligned.



The above chart is a partial organization chart for a small company. The primary difference between this chart, and the more traditional chart, is the shape. In this case, the chart is made up of circles and the teams are designed to link in a particular way. Notice that in each team, the leader of the team also sits on another team. Consequently, the CFO sits on the senior management team and is the leader of the finance team. In turn, the controller is the head of the accounting team and sits on the finance team. Thus, each team leader leads one team, and also is a member of the team above.

The alignment for the company starts when the senior management team agrees on the vision, mission, and core values for the company. By agreeing on those three things, the members of the senior management team all are aligned with the direction the company is going, how it will get there, and under what core values it will operate.

Alignment does not always indicate unity of thinking. The CFO will normally have some differences of opinion with the chief marketing officer on how best to operate, and he or she should speak up with respect to these issues. The senior management team is the place for such discussion, and it is the job of the CEO or team leader to encourage the debate but lead the team to consensus with respect to the issue. As a team member you may not always agree on everything, but you recognize the other's view as a way to reach the vision and mission operating under the values. When senior management does not have that kind of thinking and has not taken the time to discuss the values, silos are built and the senior executives often do not get along.

A. VMV for the departments

Now that the senior management is aligned and in agreement with the vision, mission, and values; the next step is to have the departments or teams go through the same process. For example, the company has stated the vision for five years, determined how the company would reach those milestones, and the

core values under which it would operate. That has been done at the senior management team level. Now, the CFO will lead the process of establishing the vision for the finance department for five years out, and specifically how the team will reach that vision, which is the mission. Finally, the team will determine the core values for the finance team.

In all cases, the vision, mission, and values of the finance team will be aligned with the VMV of the whole company, but they will not be the same. Probably, they will be more specifically designed for the finance team.

Taking the example one more level, the controller will have been a part of the finance team determining the VMV for that team. Taking that as an example, he or she will move on down to the accounting team and lead it in the exercise of determining the vision, mission, and values for the accounting team. Again, the VMV for the accounting team will be more specifically designed for that team and the entire team will have had a part in designing the statements.

As this process proceeds down through the entire company, we end up with an aligned company and not one that is disjointed and with everyone on a different page.

1. The key

In my career as a consultant, I can honestly tell you that alignment is probably the most important aspect of the organization's culture that determines its success. Many will think that having all of the departments do their vision, mission, and values statements is not that important and expensive due to the use of time. I can promise you that it is important and that the time will be more than made up for because alignment brings about a whole lot of savings. One little thing to remember is that time should not be spent on the working of the statements. It is the meaning that counts.

VIII. Group discussion

In a small group, go around the group asking if they have vision, mission, and values statements and if they can remember them. Ask if the different departments have VMV statements.

Marketing Plan

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Marketing Plan

Learning objectives

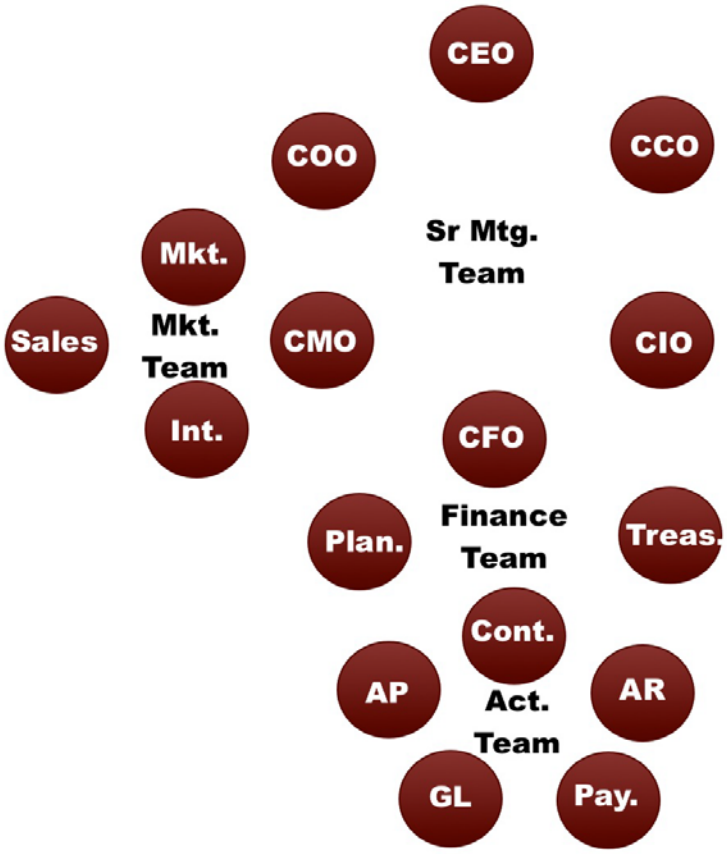
Upon completing this chapter, the reader will be able to:

- Understand the old style and the new style of marketing;
- Develop a marketing plan with the new style of marketing; and
- See how the new style of marketing can be more productive.

I. Introduction

Hey, wait a moment. Why on earth are we talking about marketing? If I wanted to be in marketing, I would have studied marketing and gone into marketing. I didn't, I went into accounting.

The reason is simple and has to do with the diagram of the company.



We are assuming that people taking this course are CFOs or ones who might aspire to that position. Consequently, we need to recognize that the CFO, sitting on the senior management team, will need to allocate resources to marketing and generally be partially responsible for the success of the marketing program. Further, the CFO and the finance team will need to understand marketing metrics, and help the marketing and sales departments track their results. Finally, if the finance group is responsible for the overall plan, it must have a good handle on the marketing plan.

II. Three approaches to the organization

A. Factory age

Starting this section in a broad and philosophical fashion, it's necessary to look at organizations and companies over the ages. First came the factory. We often think of Henry Ford as the pioneer of the industrial revolution. It's interesting to note that we didn't hear much about Ford's marketing efforts, but rather his efficiency efforts. That's because early organizations obtained their competitive advantages from being more efficient. As long as they could cut costs and make a product in an ever more and more efficient manner, they would become more competitive.

The way to achieve this efficiency or productivity would be to keep wages down and constantly invent and introduce more machines into the production line. This is a great idea; however, at some point it has its limitations. There is only so far the organization can go in becoming more efficient.

B. Advertising age

Along came a new invention called the radio, and shortly after, the TV followed into the homes of the public. Suddenly, organizations saw whole other ways of achieving competitive advantage – they advertised. Yes, there was traditional marketing done in newspapers, but the game really changed when companies could get into homes more easily through radio and television.

However, there was a quick challenge that came about with traditional media advertising. Yes, if you spent enough money, you could get your message into the homes. But that was expensive. Consequently, organizations became limited in their competitive advantage by the amount of money they had to spend on advertising.

C. Connected age

Within the past few years, things have changed again. Yes, there is the traditional media of newspapers, TV, and radio; however, they have all become less relevant as the Internet has increased in importance. No longer are we limited in our marketing efforts by the amount of money we may have in the bank. For virtually nothing, we can have a Facebook, Twitter, blogging or YouTube account, and be marketing to millions of people. Needless to say, this has severely changed the approach to marketing.

III. Key questions of the marketing plan

A. How are we different?

The first thing that any organization must answer is how it is different. After all, if the organization is not different from the competition, why does it exist? To be successful, any organization must do two things – it must be different, and it must be able to tell the market how it is different. It has to be different, and it has to be able to quickly articulate that difference.

B. How can we tell our market that we are different?

Being different is only half the battle. The organization must be able to tell the market how it is different. For example, you can have the best restaurant in town with the best food, best service, and freshest ingredients. But, if no one knows it, you will fail. Just being the best isn't enough. You somehow need to convey to the market how you are different and why you are better. Many entrepreneurs will say that the

word will get out by “word of mouth.” That may be a noble approach, but don’t count on it. In today’s crowded market, don’t expect your word to get out, or at least don’t count on having a lot of time and staying power to wait till it gets out.

C. What are we trying to accomplish with this program?

This might seem obvious; however, it is the question most often not asked. With a marketing plan of any kind, what is the real thing we are trying to accomplish? While the answer might be, to sell more products, actually we need to look a lot deeper. The conversion factor is a concept that says, how many of the people who are reached by our marketing are actually converted to some action that is requested. That might be to buy the product, click on a link on our website, or give us an email address. But the key is that we want the person looking at the ad to perform some behavior. Defining that behavior is key.

Marketing is all about change. We may want to change attitudes, perceptions, or the trust of our organization. The challenge of mass media was to run ads that would cause the greatest number of people to change. The problem was that the actual message was received by only a very small number of people who would want the message. The rest of the effort was a complete waste.

Today, with a new-style marketing, we have the opportunity to target a much smaller market, but one who has a greater likelihood to change in our favor. But, to do this, we need to specifically determine the purpose of each and every marketing effort.

D. Can it be measured?

As financial people, we are happy with this question. We know that we must have meaningful metrics to measure our specific marketing efforts. We must be able to define success and compare that success to the costs of the program.

E. Will our program build trust?

We have learned that for people to want to do business with us, they need to trust us. If they don’t, even at almost any price, they will go to a competitor. There are many things that we can do and ways to increase trust; however, there are also many ways that we can destroy that trust. Surprisingly, many organizations do things that erode trust all of the time. Spamming email accounts, for example, may reach a lot of people, but the practice will also cause plenty of people to hate to see your email. Giving good useful information, on the other hand, can increase the trust level of the customer.

F. Can we control our message?

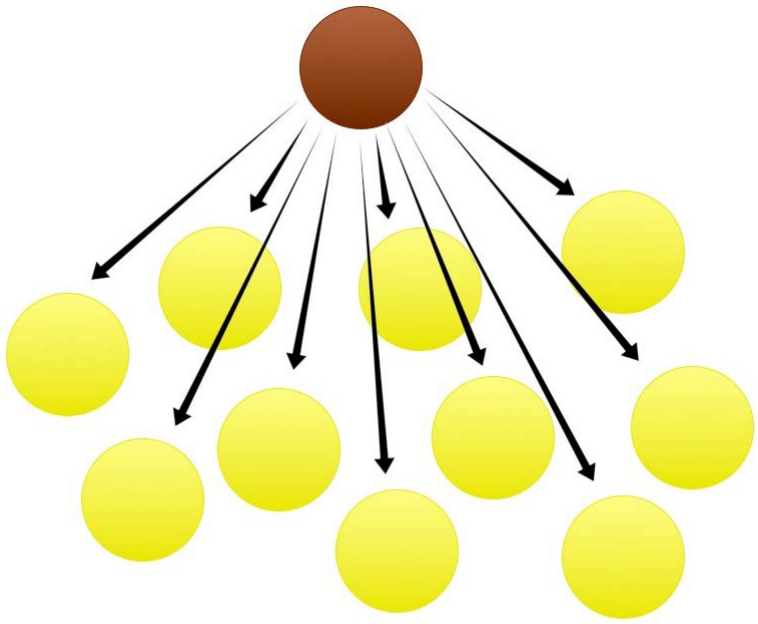
A mantra of marketing has traditionally been to control the message. That’s why organizations joyously guard media access and try to control what is said by members of the company. Years ago, that might have been a good goal, but today, it’s absolutely impossible. Remember this, no matter how hard you try; you cannot control your message.

G. What does the customer want?

A key to success is giving the customer what is wanted. The recent pandemic emphasized an interesting thing about customers: As a result of people being more isolated, their need for personal contact has increased. Consequently, those companies that have been able to increase personal touch with their customers have radically improved their customer satisfaction.

IV. Traditional marketing

While we won't spend a lot of time on traditional marketing, it's necessary to understand it to see how it differs from new style or connected marketing.



Traditional Marketing

A. The company is in control

Until the Internet, we always thought that the organization was in complete control of its marketing and public relations efforts. That is why we had centralized marketing departments, and media representatives who controlled the message. Many organizations today have hard rules that prohibit anyone from the company from saying anything to the public without the permission of the public relations or marketing department.

B. Reach

Traditional marketing is all about a combination of frequency and reach. Reach is defined as how many people will be reached by a particular message. For example, an ad on the Super Bowl has a reach of many million people. In fact, not only will people see the ad on the most-watched game of the year, but the best ads will be discussed by the media for weeks. Those ads have a lot of reach and get to a lot of people in a short period of time; however, they have two important drawbacks.

1. They are expensive

A thirty-minute spot on the Super Bowl in 2013 would have cost you about $4,000,000.

2. Most of the money is wasted

There is a great quote out there that says, "I'm totally convinced that easily one half of my advertising is totally wasted. The problem is that I don't know which half." Broad-reach marketing is a shotgun approach recognizing that most of the people watching the ad are not interested in what is being said. Consequently, the ad has a low conversion rate and causes relatively little behavior change.

The reach can be extended for no cost when the company takes the ad recording and posts it to YouTube and the website.

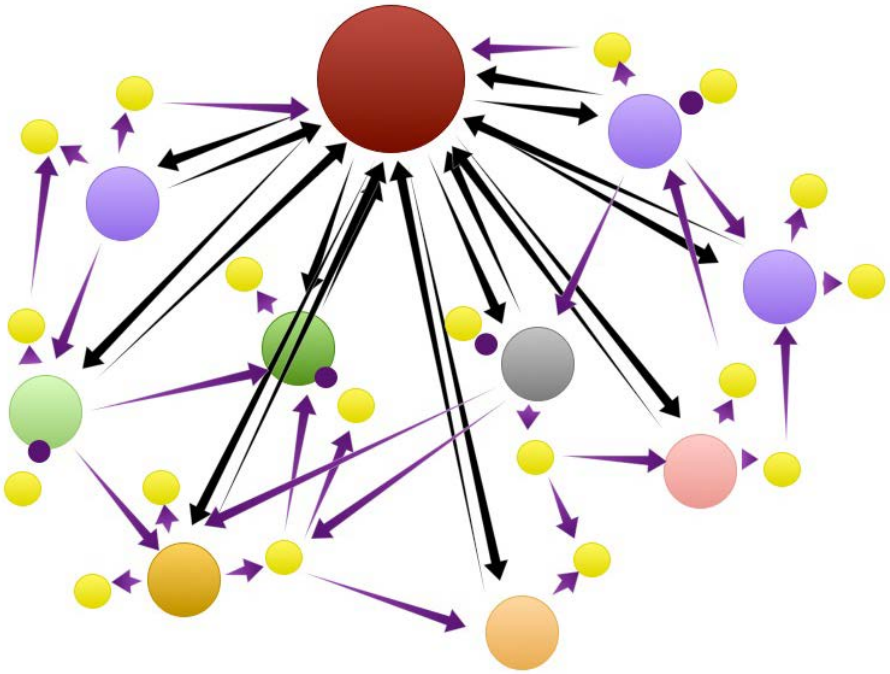
C. Frequency

The other side of the traditional equation is frequency. Studies have found that the success rate of conversion increases with more frequency. Say the same thing over and over again, and finally the message might sink in. That's if we don't get tired of a company constantly bombarding us with the same message over and over again. Connected marketing with social media allows high frequency at a low cost.

D. We love our creativity

One of the specific problems with traditional marketing is the fact that we have fallen in love with our own creativity and messages. Ads are written by ad agencies and designers to be as clever as possible. Some of the best appear on the most-watched TV shows and are obviously expensive. The problem, however, is that they often don't work. Yes, they win awards and have us all talking about them in social media, but do those ads result in any serious conversion? We love the message and skills in production, but the customer does not necessarily love them. In fact, sometimes even the viewers are taken in by the message or design of the ad, but in the end can't remember what company had sponsored the ad or what was being advertised. I've tested that theory out by asking the attendees at a Super Bowl party if they remember who or what was just advertised. Surprisingly, many said they loved the ad, but had no idea what it was for.

V. Connected marketing



Connected Marketing

The new style of marketing is radically different from the traditional. It no longer is about control, but about knowing how to manage and lead the marketing effort to better results.

A. Organized chaos

Certainly, the above chart looks a little chaotic, and it is. But that's exactly how marketing works today. Instead of a model where the company sends a message to the general public, now it may send a message out to small, select, and targeted groups only to have that message re-sent to other groups, which, in turn, re-send to still more groups. That is what the marketers call going "viral."

Probably the greatest fear of marketers is that they feel that they can't control their message. And they are correct. But the fact is that they can't control their message regardless of their participating in the new connected marketing system or not.

1. Case study example

A small-town police force takes great pains to attempt to control its message. Individual officers, including the chief, are prohibited from talking to the media. That job is left to the public information officer who handles all press conferences and even prepares "talking points" for the chief and other senior officers should they be called upon to make a statement.

The town is controlling its message, right? One evening, an officer made a traffic stop and said some things that may have been interpreted as being inappropriate. The woman had a dash camera in her car that was running, and she also triggered her cell-phone recording device before the officer approached her. The following day, the entire experience had been tweeted to her followers, posted on YouTube, and had a corresponding message on her Facebook page with the link to the video and audio. The video went viral, and the town was very embarrassed.

Could the town control its message? No!

2. Our message can't be controlled no matter how we try

With the Internet and various social networking media, our company message must be completely rethought knowing that we can't control it. We can, however, manage it differently with the result being a much more effective marketing program that will translate into better conversion at a lower cost. The difference, however, is that we need to develop this new strategy using the new media yet in conjunction with traditional media.

We are not saying that we won't use traditional media. An excellent example is the Go Daddy Company. Some years ago, the completely unknown company spent a lot of money with a sexy ad on the Super Bowl game. That traditional ad got people talking, and they sought out the website when they wanted to register their own new website. From the Go Daddy website, the marketing totally differs using social media heavily in most of their marketing program.

3. New media

Examples of the new media include the following.

a. **Facebook** -- Probably is the largest social media network. While often seen as a personal network, companies and organizations make use of it with commercial pages, advertising, private groups, and similar parts of the media.

b. **Twitter** -- Similar to Facebook, this platform allows only short posts, but companies utilize it heavily sending messages to individuals, employees, customers, and the public.

c. **LinkedIn** -- This tends to be a professional linking platform used mostly by individuals. However, it can be very effectively used in recruiting as well as networking between executives and other professionals.

d. **YouTube** -- This is a great example of choosing to use a part of social media for the organization's benefit or waking up some morning discovering an embarrassing video about your company going viral. Many companies use the platform for training, promotion, or helping customers to better use their products.

e. **Amazon** -- Often not seen as a social media platform, it can be a very effective way to reach the public with products.

f. **eBay** -- Similar to Amazon, we don't see this as social networking; however, it can be used to move excess inventory as well as to get the name of the organization into the market.

B. Greatest mistake in connected marketing

The single greatest mistake that marketers make today is to think that the organization's connected marketing strategy would work similarly to that of traditional marketing.

There are many differences between traditional and connected marketing, but probably the largest is that traditional marketing is one-way, from the company to the public; whereas, connected marketing is multi-way with messages traveling back and forth among the groups. This kind of marketing is collaboration at its best.

It is interesting to note the similarity between management and marketing in this respect. In the traditional command and control management system, orders, delegation, and knowledge generally run downhill from the top to the bottom. In the new style of management, the buzzword of leadership is collaboration where leaders empower and use their teams in making decisions.

The same is true of marketing. In the new style, the messages go through collaborating groups; consequently, the organization needs to completely re-think the strategy.

1. Case study example

A performing arts center has a large email list of its patrons. The primary way it uses the list is to send out "blast" emails reminding the patrons of upcoming shows and available seats and specials. It also has Facebook and Twitter accounts, and it uses them the same way sending messages from the organization to the patrons.

Another performing arts center engages its groups in a different way. While they also will send out messages and posts on Facebook and Twitter about shows, they will also periodically use both of their accounts to survey the public on shows. In addition, when selecting acts to book for the theater, the group will hold contests and use other creative ways to get input from the patrons.

Which performing arts organization do you think is making better use of social media?

C. Myths of marketing in the age of connected marketing

While there are probably several others, here are some of the most common mistakes when thinking about connected marketing.

1. Hits on the website is the best way to determine success

While programs can easily measure how many hits came onto a website, the true measure of the effectiveness of the site is sales made or some other metric. Good websites ask for action – and recording how many times that action is performed is the best way to measure the success of the site.

2. If you build it, they will come

Not true. With over a billion websites out there, the chances of yours being the one seen is pretty remote. It may have worked a few years ago, but no longer. A website is not an Internet strategy. It's like printing a brochure and then leaving the copies in boxes in the storeroom. It might make you feel good for having such a nice brochure, but they won't do a bit of good without being seen.

3. Our website should be pretty like our brochure -- If it is, people will see it

There are plenty of pretty and well-designed websites out there, but that's all they are, and they don't work. The good website asks for action and records the success of that request.

4. You can sell stuff on the Web if you spend enough on a good website

Again, not true. Money isn't the answer; strategy is.

5. Search engines and SEO are the key to success

Search engine optimization may get your site near the top of the lists of the search engines; however, the strategy is flawed for two reasons. First, it is an expensive strategy. Second, most people do not surf the Web through search engines, but they go to sites specifically for specific reasons. A good strategy will lead to a scalable amount of traffic that does not rely on random searching.

6. The Web is like TV

They are very different. The Web is two-way whereas TV is one-way.

VI. Tribes

In his book of the same name, prolific author Seth Godin recognized a unique aspect of connected marketing involving tribes. In his definition, a tribe is a group of people connected to each other, with a leader, and for a common cause.

The Tribe

A. Crowds and tribes

We need to make an important distinction between crowds and tribes. Both are groups of people, but there are some important differences.

1. Crowds don't have leaders

A group of people is just that, a group of people. A tribe, on the other hand, has a leader of the group of people. However, it's important to recognize that leadership is different from management. The leader coaches the group in a more collaborative fashion and does not dictate, which would be more normal in a bureaucratic group.

Some of the key things that the leader does for the tribe is to organize it, set the vision, and help perpetuate the passion of the rest of the members.

2. Crowds don't have communication

That may not always be true, but when a crowd has communication, it is almost always only one way.

3. Examples of tribes

When we see some examples, we clearly see the difference between crowds and tribes. Jerry Garcia was a musician, but more importantly, he was the leader of a tribe. It's easy to see the difference between the followers of most musical groups and the followers of Jerry. We called them "Dead Heads."

Another somewhat humorous example is pirates. They were certainly groups with a communication system, a leader, and some clear values. Today, we might not agree with those values, but they were shared by the tribe. To top it off, that tribe had its own way of dressing and a flag.

The Tribe

B. Tribes used to be local

Prior to the Internet, tribes used to be local and confined to churches and similar organizations that met locally on a periodic basis. Today, thanks to the Internet and social networking, tribes can be anywhere in the world. All they need is a leader, people, and a cause.

C. Marketing to tribes

One of the most important keys in the understanding of tribes is how we reach them with a message. While a one-way message might have worked with crowds, tribes thrive on networking and therefore, two-way messages. We make a huge mistake thinking that we can market to tribes the same way we used to market to crowds.

D. Building tribes as a marketing strategy

The hottest trend in marketing today is forming tribes, building loyalty, and marketing to that tribe. We see obvious examples of this every day. Musical groups no longer survive on selling CDs. They rely on building their faithful followers in the form of a tribe who often travel across the country for a performance. Recently I attended a concert of a group that had a type of “frequent flyer” card to have stamped to receive discounts on show tickets and merchandise. Look at the tables after concerts, and you will see how the group leverages its tribe into merchandise sales.

In fact, airline frequent flyer programs are some of the first tribe ideas; however, few airlines have been able to overcome the problems of bad service to properly utilize their tribes. Southwest Airlines has had much better success, and it is a regular on Facebook and Twitter as it makes specials available to its tribe. But, while making offers on the Facebook page may be one-way, the company also allows people to post complaints making it a two-way media. More importantly, when they get a complaint, they don’t act defensive, but investigate it and post back to the complainer.

Please remember an old concept. Statistics show that most unhappy customers will never tell you, but they will broadcast their unhappiness far and wide. But when you do hear from them, and you are able to satisfy their needs by listening and doing something about it, they will then stay with you and praise you.

E. Tribe strategy

There are certain steps needed to use tribes as your marketing strategy.

1. Start the tribe

While the concept may be simple, it’s not necessarily easy. An organization starts building its tribe using all forms of social media in concert and in conjunction with traditional media. For example, let’s say that you own a restaurant and would like to start and build a tribe.

a. **Make it worth their while** -- Generally, people aren’t going to join a tribe without some kind of incentive. As a restaurant, you may offer a special free gift at the table if a person will give an email address and fill out a short form with special dates like birthday and anniversary. Then, on a person’s anniversary, you send a special invitation and say that a complimentary rose or glass of wine will be at the table.

b. **Give away something useful** -- The same restaurant might give away recipes on the website or via a Facebook page. At the time, the tribe members will be receiving valuable free content, and all the time the restaurant will be building the tribe.

2. Build the tribe

The key to the tribe is passion. A tribe at a restaurant may be a list of email addresses, but that won't be translated to a lot of business if there is no passion. The tribe members must become passionate about their experience and build loyalty to the brand. When that happens, you will have them using their own Facebook and Twitter accounts praising your brand and re-tweeting or sharing your messages. It is up to the business to give the tools to the members. If they are enjoying tribe membership, they will tell their friends.

The trouble is that the business also has the power to destroy the tribe. All you need to do is start spamming the email accounts with material that the members don't value. If they value the information, education, and other materials, they will stay with you. If not, you will quickly see them leave the tribe.

3. Develop the true fans in the tribe

The final goal of the tribe strategy is to develop a loyal group of fans that are so passionate about your product or service that they have become true fans. You will be able to recognize this when they:

- Go out of their way to do business with you.
- Recommend you to friends in their networks.
- Are willing to pay a little more to buy from you.
- Are passionate about your product or service.

VII. Permission marketing

Godin also describes the new way to market as permission marketing. He does this by contrasting the new way to market against the old way, which he calls interruption marketing. When we think of it, the contrast is obvious. In traditional marketing, you sit down to watch some TV or read a paper, and the media interrupts you to give you a message. Especially in the paper, you might try to avoid the interruption, and may succeed if lucky. But the ad designer has done all he can to trick you into being interrupted.

Permission marketing, on the other hand, is totally different. In this case, you have given the marketer permission to give you some information. In fact, you may have even asked for the information and are very pleased to read the content. This might be a newsletter or blog to which you have subscribed or some educational material that you want. In any case, you are happy to get it and will devote your attention to it. You have given your permission to get the information.

While traditional interruption marketing is like a shotgun hitting only a very small percentage of the people who may see it, permission marketing hits a much smaller targeted market, but all of the market wants to read the material. Where interruption marketing is expensive, permission marketing is far more economic.

A. Why people give permission

People give their permission to be interrupted for several reasons.

1. Information

You are agreeing to provide information to the prospect that he or she wants and can get at no other place. A review service of restaurants might be an example. People want to read the reviews, and they might give you an email address to get the reviews if they are good enough.

2. Education

Let's say you have that restaurant. Many people will be willing to give you their email addresses for some great recipes.

3. Entertainment

Possibly you have posted some entertaining content on YouTube, and by giving you an email address, they can take home the audio of the song.

4. Cash

While you probably won't actually give away cash, you might have a contest with the winner receiving something of significant value. The people will give you their email addresses to be entered in the contest.

B. Permission marketing to the tribe

It's interesting to note how these two concepts work together. People give us their permission in the form of joining our tribe. Then, once members of the tribe, they gain in their loyalty to the point where they are exhibiting the traits discussed above.

C. Customer is in control

It is very important to realize that in both permission marketing and tribes, the customer is always in control. That person has to give us permission to allow us to market to him or her. And, we have to continue to give good content and avoid violating the trust that has been given to us.

D. Levels of trust

1. Spam – No trust

At the bottom of the trust levels would be where a company sends out spam to email accounts. In this case, the person has not given permission to receive this information and won't generally do anything with it. This is often done by companies using the Internet and social media as they would with traditional media. It can also be used with Twitter, Facebook, and YouTube when all the company uses the media for is selling something. This does not gain trust.

2. Situational trust

A little better than spam is situational trust. Here the customer makes a call to a call center or clicks on a website to get specific information. The trust level is low and only for that situation. The customer trusts the company to give the information. If the contact is handled well, the trust level can grow from here.

3. Brand level trust

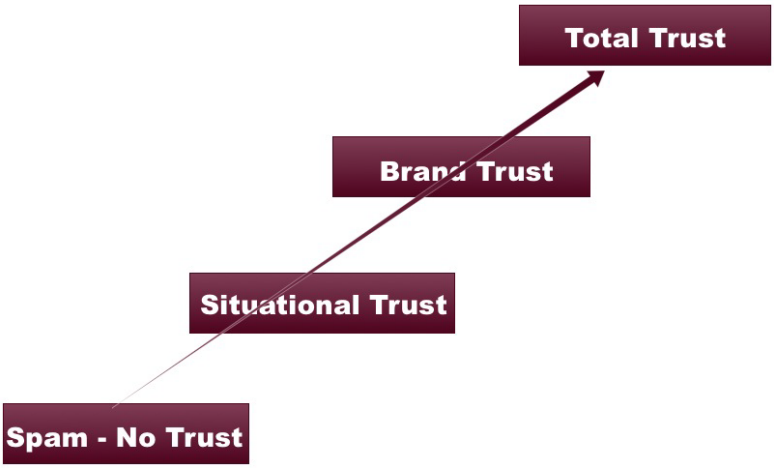
In this case, the customer has gained more trust in the company and actually trusts that good value will be given. At this level of trust, the customer may not sign up for any long-term contract, but they are willing to trust that the company will give good value across a broader range of services.

4. Total trust

This is the level of trust at which we are striving. Here the customer has given control over to the company because he or she is confident that the company will give good value and make the right decisions. This is the kind of trust that a client gives to the CPA who is preparing the taxes. After all, the

customer is not about to research the tax law, but they trust the accountant to have done the proper research. Another example is where periodically the customer may call the cell-phone company asking if he or she is on the best plan for the usage encountered. In this case, the customer trusts that the person on the line will give a good opinion, and not one that is just in favor of the company.

This, and all levels of trust, can be violated and the trust diminished. For example, the customer has a good brand level trust, but that trust will quickly fade if the customer finds out that the company is giving better deals to others. Or, if the client discovers a tax advantage that wasn't made available to her, the trust level will diminish. Consequently, we have to work hard to maintain the high level of trust.



E. Advantages of permission marketing to the tribe

With this new style of marketing, the company has huge amounts of data on what customers are buying, when, and for what reason. It is also much easier to track results of campaigns. For example, Southwest uses the system to make offers to their best customers through their frequent flyer program (tribe). They can easily send out the offer through the emails to a small group of flyers, Twitter, or Facebook, and watch the change that occurs on the website. What we have is instant metrics.

Once the company has those kinds of tracking information, it is easy for them to adjust the offers and discounts to appeal to specific groups.

Let's remember where we started. All marketing is about reach and frequency. In the case of permission marketing to the tribes, the reach is targeted to the point where people interested in the offer are much more apt to respond.

F. Simple five-step process for connected marketing

1. Marketer offers the prospect an incentive for volunteering or giving permission

Interestingly, this first step may very well be as a result of interruption marketing. The prospect may have seen an ad on TV, newspaper, or some other more traditional media. The ad may promise a reward, contest, or some other incentive such as a limited-time subscription for the prospect to go to the website and opt in for the special.

2. Marketer gives information or education about the product or service

In turn for the entry-level permission, the marketer gives the reward to the prospect. It's important that the prospect sees the information or education as valuable, or trust will be diminished rather than built. Remember that a primary goal of this whole process is to build the tribe and build trust.

3. Marketer uses email to remind the customer to return to the website

If we don't follow this strategy, the prospect will disengage from the tribe and see no real value for continuing.

4. The incentive is reinforced to guarantee that the prospect maintains permission

Just having the customer at this point is not enough. He or she needs to be nurtured and further reinforced.

5. Marketer gives more incentive to get higher permission

From here on, the relationship is to give more incentive to get more permission and more commitment to the tribe. Our goal is to convert this person from a casual customer to one who will recommend the product and forever build the tribe.

VIII. Group activity

In a small group, pick one represented organization and brainstorm how it could build a tribe. Discuss:

- **Who would be the leader of the tribe?**
- **What incentives might be used to opt into the tribe?**
- **What metrics might be used to measure success?**

The Five-Year Plan

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The Five-Year Plan

Learning objectives

Upon completing this chapter, the reader will be able to:

- Know how and why we put numbers to the five-year plan;
- Understand how we take the present numbers and adjust for major growth; and
- See how to do a simple market share analysis.

I. Numbers to the strategic plan

At the end of the entire strategic planning process, it's time to put numbers to the plan. We have defined where we want to be, and we have also said a few things about how we will get there. Finally, we have drawn up a list of core values that will guide our thinking. But, while words are great, it helps a lot to put numbers to the words.

Albert Einstein said something interesting that applies to our work. He said, "Not everything that can be counted, counts; and not everything that counts can be counted."

A. Vision

The vision statement that we write should be able to be measured. Peter Drucker is famous for saying that if you can't measure it, you can't manage it. That's why some statements such as, "We want to be the best…" are difficult to measure. How do you define the best? On the other hand, if we use some measure a little more concrete, it is far easier to see if we have reached our goal.

B. Mission

The mission is how we are going to get to the vision. We may say that we will have the best or happiest employees, the best customer service, or the best food. But how are we going to measure those lofty goals?

C. Core values

The same situation is true for the statement of core values. They may be important to us, but to translate that feeling to the rest of the organization, we will need a good way to determine victory. We not only need to have those values, but we need a way to measure and keep people accountable that they are following the values.

D. Details, details, details

In putting the numbers to the five-year plan, it's necessary to stay away from the details. One of the greatest mistakes we can make is to get bogged down into individual line items when we know that the numbers will change, as we get closer to the time involved.

II. Restaurant model example

For this discussion, it will be easiest to understand by working through an example. While there is no business that is typical of all organizations, a restaurant makes a pretty good example since we have all visited them and many have some ideas of how we could run them successfully.

The following is the balance sheet and income statement of a family-oriented restaurant.

The restaurant is relatively new with fairly little retained earnings; however, it is now quite profitable earning 11.5 percent (pretax) on sales, 11.24 percent on assets, and 35.65 percent on equity. The ROE is high since the company is relatively highly leveraged with a debt/worth ratio of 2.17.

A. Opening financial statement

Balance sheet (000 eliminated)	20X1
Cash	27
Accounts receivable	20
Inventory	111
Prepaid expenses	5
Total current assets	163
Land and building	1,645
Equipment	524
Less depreciation	52
Net fixed assets	2,117
Total assets	2,280
Due bank current	49
Accounts payable	10
Accrued liabilities	7
Current portion of LTD	45
Total current liabilities	111
Long-term debt	1,451
Total liabilities	1,562
Common stock	500
Retained earnings	219
Net worth	719
Total liabilities and net worth	2,280

Sales	3,714
Cost of food	1,151
Gross profit	2,563
Labor	1,411
Marketing	56
Utilities	89
Cleaning	14
Marketing	56
Supplies	32
Depreciation expense	344
Interest	82
Other operating expenses	51
Total operating costs	2,136

Net profit before taxes and dividends	427
Income taxes	171
Net profit after taxes	256
Dividends	102
Transferred to retained earnings	154
Current ratio	1.47
Debt/worth	2.17
ROA	11.24%
ROE	35.65%
Pretax profit on sales	11.50%

B. Vision statement

At the company strategic planning meeting, management determined that it wanted to grow and decided on the following vision statement:

Continue and expand the successful model of the company to become the largest family style restaurant in the neighboring three-county area.

As it was determining its vision, several important questions came up about growth.

1. What is the reason for the present success?

The possibilities for present success included:

- Location;
- Management;
- Food;
- Service;
- Delivery systems; and/or
- Personality of the owner/manager.

The answers to these, and similar questions, are crucial because some can be duplicated and others cannot. For example, if the success is primarily driven by the owner/manager's personality, then it may be almost impossible to find another manager with those qualities. On the other hand, if the success is primarily based on the food, those recipes are more easily transferred from one location to another.

As the leadership team discussed these factors, it was decided that growth could occur; however, the key would be to have good management at the various locations. Consequently, they determined that they would have to have a good incentive system for both the manager and the rest of the employees. They determined that having a well-working total team would be a core value.

Management's final determination was that the vision should be about market share, so they set about to determine the possible market share and what portion they should try and capture. The following table helped them make that determination.

2. Market share analysis

Area population	1,456,255

Rasmussen dining out statistics	rarely/never	once a week	two to three	over three
	47%	30%	16%	7%

		One time	Frequency	Total people	Yearly
Almost never	47%				
Once a week	30%	436,877	1	436,877	22,717,578
Two to three times a week	16%	233,001	2.5	582,502	30,290,104
Over three times a week	7%	101,938	4	407,751	21,203,073
Total people eating out					74,210,755
Average group size					3.14
Total number of groups					23,633,998

Company sales last year	3,714,000
Company average ticket	10.26
Patrons last year	361,988
Groups last year	115,283
Market share last year	0.4878%

From this analysis, the company determined that they had almost one half of one percent with the one location. While the three-county area was relatively rural, they also felt quite confident that they could build a minimum of 15 to 20 restaurants without one location pulling patrons from another. No other family-oriented restaurant had as many locations in the area, so they determined that they could achieve their goal of being the dominant chain if they could build 10 new locations over the next five years.

C. Mission

The mission statement is a statement of how we will accomplish the vision. The company considered the following things that now, and would in the future, make them unique. These were:

1. Unique food

The company has perfected a unique type of food, décor, and ambiance that all plays together to be a desirable place to eat. No other restaurant has the same thing, and the company is sure that the concept can be duplicated in other locations.

2. Exceptional service

While all restaurants claim to have great service, the experience and ratings indicate that this restaurant completes the mission. With good management, the company is convinced that this can be duplicated.

3. Efficient operation

All employees seem to work as a team toward efficiency.

4. Dedicated workforce

The company uses its workforce as part of its marketing plan. Instead of prohibiting people from updating their Facebook pages on company time, they actually encourage it as long as the employees get their work done. Consequently, the workforce is constantly posting about new menu items, specials, and other things that bring people into the restaurant.

Recently the company was rated in the local “Best places to work,” which was quite a surprise for a restaurant with a lot of minimum wage jobs. They believe that they can improve this rating and transfer it to other locations.

D. Core values

Some of the core values that were incorporated into their plan included the following.

1. We take care of our employees knowing that they will take care of our customers

Organizations are constantly having to walk a very thin line between defending the employees and considering that the customer is always right. Sometimes, by siding with the customer, we are going against the employee. This company recognizes that conflict and handles it through extensive training to the point where every employee both knows the value of every customer, and is fully empowered to treat the customer in the best way possible.

2. We watch the financial risk of the organization to protect the company

This is especially important since the company provides employment and does not want to risk putting people out of work due to bad management decisions.

3. Employees and customers come first

The company wants to make a fair return for shareholders; however, that is not the top priority. Employees and customers come first.

E. Challenges to the growth plan

As the management team concluded its strategic planning session, it took a critical look at some of the things that might be difficult to duplicate. First, they asked again to determine why the company had been so successful to this point, speculating on each of the following factors.

1. Personality of the owner/manager

This was a real serious question because the owner was also the hands-on manager and was at the restaurant every evening. He knew and greeted most of the patrons, and obviously, they enjoyed his individual attention. There was a real question if this could be duplicated at other locations.

2. Food

Management was sure that this was important, but could it be duplicated?

3. Service

With good management, this could be duplicated.

4. Location

This was very important, but the management team had been spending a lot of time scouting locations and felt that finding some good ones would not be a problem.

5. Management system

The management systems were in place, well documented, and should be easy to duplicate. The team recognized that a good incentive system for both managers and the lower-level employees would be important to retain the enthusiasm and culture of the organization in other locations.

F. Five-year projections

Deciding that the company could expand, the CFO projected the company's income statement and balance sheet forward for 5 years. At this point, the assumptions were that all of the margins would remain the same. For the projection, it was assumed that the dividend policy of 40% would remain if possible.

Balance sheet (000s eliminated)	20X6
Cash	297
Accounts receivable	220
Inventory	1,226
Prepaid expenses	55
Total current assets	1,798
Land and building	18,095
Equipment	5,764
Less depreciation	576
Net fixed assets	23,283
Total assets	25,080
Due bank current	3
Accounts payable	110
Accrued liabilities	77
Current portion of LTD	289
Total current liabilities	479
Long-term debt	13,342
Total liabilities	13,820
Common stock	5,500
Retained earnings	5,760
Net worth	11,260
Total liabilities and net worth	25,080

Sales	40,854
Cost of food	12,665
Gross profit	28,189

Labor	15,525
Marketing	616
Utilities	979
Cleaning	154
Marketing	616
Supplies	352
Depreciation expense	3,782
Interest	683
Other operating expenses	561
Total operating costs	23,267
Net profit before taxes and dividends	4,922
Income taxes	1,969
Net profit after taxes	2,953
Dividends	1,181
Transferred to retained earnings	1,772
Current ratio	3.76
Debt/worth	1.23
ROA	11.78%
ROE	26.23%
Pretax profit on sales	12.05%

The projection in the fifth year needs some explanation. While the expense margins all remain the same, the profitability increases. This is because of the retained earnings build-up that reduces borrowing and interest expense.

The important part of the five-year projection is that it shows the feasibility of the project. When an organization considers expansion like this, it needs to look at the capital needs. Should the company have needed more capital, it could have considered going public or otherwise bringing in more investors, having other people build the buildings and leasing them back to the company; or even franchising. Because the projections indicate that the company can do the expansion without serious changes in either its liquidity or leverage ratio, management determined that it would pursue the project with present capital as it grew through profits.