



This project is funded by the European Union



Module 3: BUSINESS PLANNING - ADMINISTRATIVE ISSUES

Aiming at presenting the main steps in entrepreneurial planning in terms of administrative and accountancy planning.

Growing a business means taking many decisions about the way you want to expand your operations. Creating a strategic plan is a key component of planning for growth. It will help you prepare a realistic vision for the future of your business and in doing so can maximize your business' potential for growth.

A strategic plan should not be confused with a business plan. A business plan is about setting short or mid-term goals and defining the steps necessary to achieve them. A strategic plan is typically focused on a business' mid- to long-term goals and explains the basic strategies for achieving them.

This guide sets out the basics of the strategic planning process. It explains how to go about drawing up a strategic plan, it highlights some important issues to bear in mind and it shows how to turn from planning to implementation.

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The purpose of strategic planning

The purpose of strategic planning is to set your overall goals for your business and to develop a plan to achieve them. It involves stepping back from your day-to-day operations and asking where your business is headed and what its priorities should be.

Why strategic planning matters more to growing businesses

Taking the decision actively to grow a business means embracing the risks that come with growth. Spending time on identifying exactly where you want to take your business - and how you will get there - should help you reduce and manage those risks.

As your business becomes larger and more complex, so strategy formulation will need to become more sophisticated, both to sustain growth and to help you muster the leadership and resources you need to keep your business developing.

To do this, you will also need to start collecting and analyzing a wider range of information about your business - both about how it operates internally and



about how conditions are developing in your current and potential markets.

The difference between strategic planning and writing a business plan

The process of strategic planning is about determining the direction in which you want to take your business. It involves setting out your overall goals for your business. By contrast, the purpose of the business plan is to provide the detailed roadmap that will take you in your desired direction.

Your strategic planning and your business planning should be complementary, but effective strategy development requires you to shift your focus from the day-to-day concerns of your business and to consider your broader and longer-term options.

The three key elements of strategic planning

Developing a strategy for business growth requires you to deepen your understanding of the way your business works and its position relative to other businesses in your markets. As a starting point, you need to ask yourself the following three questions:

Where is your business now? This involves understanding as much about your business as possible, including how it operates internally, what drives its profitability, and how it compares with competitors. Keep your review separate from day-to-day work and be realistic, detached and critical in distinguishing between the cause and effect of how your business operates. You should also write it down and review it periodically.

Where do you want to take it? Here you need to set out your top-level objectives. Work out your vision, mission, objectives, values, techniques and goals. Where do you see your business in five or ten years? What do you want to be the focus of your business and your source of competitive advantage over your rivals in the marketplace? This step should be the foundation for the final plan and motivate change.

What do you need to do to get there? What changes will you need to make in order to deliver on your strategic objectives? What is the best way of implementing those changes - what changes to the structure and financing of your business will be required and what goals and deadlines will you need to set for yourself and others in the business? Think about the business as a whole, for example consider diversification, existing growth, acquisition plans, as well as functional matters in key areas.

While the second question - Where do you want to take it? - is at the heart of the strategic planning process, it can only be considered usefully in the context of the other two.

You should balance your vision for the business against the practical realities of

your current position and changes, such as increased investment in capital and other resources that would be required to implement your vision. A strategic plan needs to be realistically achievable.

Getting started with strategic planning

As with any business activity, the strategic planning process itself needs to be carefully managed. Responsibilities and resources need to be assigned to the right people and you need to keep on top of the process.

Who to involve

Try to find people who show the kind of analytical skills that successful strategic planning depends upon. Try to find a mix of creative thinkers and those with a solid grasp of operational detail.

A good rule of thumb is that you shouldn't try to do it all yourself. Take on board the opinions of other staff - key employees, accountants, department heads, board members - and those of external stakeholders, including customers, clients, advisors and consultants.

How to structure the process

There is no right or wrong way to plan the process of strategic planning but be clear in advance about how you intend to proceed. Everyone involved should know what is expected of them and when.

For example, you may decide to hold a series of weekly meetings with a strategy team before delegating the drafting of a strategy document to one of its members. Or you might decide to block off a day or two for strategy brainstorming sessions - part of which might involve seeking contributions from a broader range of employees and even key customers.

Getting the planning document right

The priority with strategic planning is to get the process right. But don't neglect the outcome - it's also important to make sure you capture the results in a strategic planning document that communicates clearly to everyone in your business what your top-level objectives are. Such a document should:

reflect the consensus of those involved in drafting it

be supported by key decision-makers, notably owners and investors

be acceptable to other stakeholders, such as your employees

Build your plan on solid strategic analysis

Strategic planning is about positioning your business as effectively as possible in the marketplace. So you need to make sure that you conduct as thorough as possible an analysis of both your business and your market.

There is a range of strategic models that you can use to help you structure your



analysis here. These models provide a simplified and abstract picture of the business environment. SWOT (strengths, weaknesses, opportunities and threats) analysis is probably the best-known model and is used by both smaller and bigger businesses in the for-profit and not-for-profit sectors alike. STEEPLE (social, technological, economic, environmental, political, legal, ethical) and Five Forces analysis are two other widely used models.

SWOT

A SWOT analysis involves identifying an objective of a business or project and then identifying the internal and external factors that are favorable and unfavorable to achieving that goal.

These factors are considered using four elements:

strengths - attributes of the business that can help in achieving the objective

weaknesses - attributes of the business that could be obstacles to achieving the objective

opportunities - external factors that could be helpful to achieving the objective

threats - external factors that could be obstacles to achieving the objective

STEEPLE

There are other models you can use to assess your strategic position. STEEPLE analysis, for example breaks the business environment down into the following components:

social – e.g. demographic trends or changing lifestyle patterns

technological – e.g. the emergence of competing technologies, or productivity-improving equipment for your business

economic – e.g. interest rates, inflation and changes in consumer demand

environmental – e.g. changing expectations of customers, regulators and employees on sustainable development

political – e.g. changes to taxation, trading relationships or grant support for businesses

legal – e.g. changes to employment law, or to the way your sector is regulated

ethical – e.g. ethical and moral standards governing policies and practices

STEEPLE analysis is often used alongside SWOT analysis to help identify opportunities and threats.

Five Forces

The Five Forces model aims to help businesses understand the drivers of competition in their markets. It identifies five key determinants of how operating in a given market is likely to be for a business:

customers' bargaining power - the higher it is (perhaps because there is a small



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number of major buyers for your product or service) the more downward pressure on prices and thus revenue they will be able to exert
suppliers' bargaining power - the ability of suppliers to push prices up (for instance if you rely on a single firm) can impact significantly on costs and profitability

the threat of new competitors entering your market or industry - more businesses competing makes it more difficult to retain market share and maintain price levels
the threat of customers switching to substitute products and services - an example would be the threat to fax machine manufacturers posed by the wide availability of email

the level of competition between businesses in the market - this depends on a wide range of factors, including the number and relative strength of the businesses and the cost to customers of switching between them.

What a written strategic plan should include

There is no set blueprint for how to structure a strategic plan, but it is good practice to include the following elements:

Analysis of internal drivers - corresponding, for example, to the strengths and weaknesses of a SWOT (strengths, weaknesses, opportunities and threats) analysis.

Analysis of external drivers - this should cover factors such as market structure, demand levels and cost pressures, all of which correspond to the opportunities and threats elements of a SWOT analysis.

Vision statement - a concise summary of where you see your business in five to ten years' time.

Top-level objectives - these are the major goals that need to be achieved in order for your vision for the business to be realised. These might include attracting a new type of customer, developing new products and services, or securing new sources of finance.

Implementation - this involves setting out the key actions (with desired outcomes and deadlines) that will need to be completed to attain your top level objectives.

Resourcing - a summary of the implications your proposed strategy will have for the resources your business needs. This will reflect financing requirements, as well as factors such as staffing levels, premises and equipment.

You may also want to consider adding an executive summary. This can be useful for prospective investors and other key external stakeholders.

Some important strategic planning issues to consider

Growing a business can pose some considerable personal challenges to the owner



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or manager, whose role can change dramatically as the business grows.

Effective strategic planning involves considering options that challenge the way that business has been done up to this point. It may be that decision-making in some areas will be handed to others, or that processes which have worked well in the past will no longer fit with future plans.

It can be tempting for owners or managers to overlook alternatives that are uncomfortable for them personally, but to disregard your options on these grounds can seriously compromise your strategic plan and ultimately the growth of your business.

Examples of the kind of issues that tend to get overlooked by growing businesses include:

The future role of the owner - for example, it may be in the best interests of the business for the owner to focus on a smaller number of responsibilities, or to hand over all day-to-day control to someone with greater experience.

The location of the business - most small businesses are located close to where the owner lives. But as a business grows it may make sense to relocate the business -for example, to be closer to greater numbers of customers or employees with certain skills.

Ownership structure - growing businesses in particular should ensure that they get this right. The more a business grows, the more sophisticated it needs to be about meeting its financing needs. In many cases, the best option is for the owner to give up a share of the business in return for equity finance - but this can be emotionally difficult to do.

In the final analysis, it is the owner of the business who decides the strategic plan. Growing a business is not something done "at all costs". However, an honest assessment of the options allows for any decisions made to be as informed as possible.

Implementing a strategic plan

The plan needs to be implemented and this implementation process requires planning.

The key to implementation of the objectives identified in the strategic plan is to assign goals and responsibilities with budgets and deadlines to responsible owners - key employees or department heads, for example.

Monitoring the progress of the implementation plan and reviewing the strategic plan against implementation will be an ongoing process. The fit between implementation and strategy may not be perfect from the outset and the implications of implementing the strategy may make it necessary to tweak the strategic plan.



Monitoring implementation is the key. Using key performance indicators (KPIs) and setting targets and deadlines is a good way of controlling the process of introducing strategic change.

Your business plan is another important tool in the implementation process. The business plan is typically a short-term and more concrete document than the strategic plan and it tends to focus more closely on operational considerations such as sales and cash flow trends. If you can ensure that your strategic plan informs your business plan, you'll go a long way to ensuring its implementation.

Strategic planning can involve making both organizational and cultural changes to the way your business operates.



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