

Steven Roy Management

Cambyses Financial Advisors LLC

Pre-Plan Your Business Plan

Steven Roy Management
Cambyses Financial Advisors LLC

13027 Victory Blvd, PMB 722
North Hollywood, CA 91606
www.stevenroymanagement.com

[Telephone] (818) 489-4228

[Fax] (818) 450-0426

Steven@StevenRoyManagement.Com

Reviewed and Drafted By:

- Nastaran Motiei MBA (Chief Executive Officer, Chair)
- Steven J Roy MS, MST, EA (Chief Operations Officer, Treasurer)

Revised: 08/2020

Introduction

Take some time to plan before you plan.

At some point in your business career you will put together a full-fledged business plan that presents the business case for your product or service and your business. Before you get started, organize your thoughts to provide a structure for all of the hard work that will follow.

Here are some useful ideas to consider before you draft your plan.

Focus on Your Customers' Values:

Consider the Three Ps (Product, Place, Price)

Determine Your Scope:

Products, Product Lines, or Your Whole Company

Determine Your Objective:

Different Objectives – Different Plans

Consider Your Audience:

Different Audience – Different Needs

Build Your Team, Build Organizational Support

Diverse Skills Produce a Better Plan

Plans Work Best When (Almost) Everyone Buys In

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Focus on Your Customers' Values!

Customers drive your business plan!

Regardless of the scope of your planning ambitions, the reason you are planning, or the audience you intend to reach with your business plan;

Business success or failure is determined by how much of your product or service your customers demand.

This, in turn, is determined by your customers' needs and how well your product fulfills them (product), how your customer obtains it (place), and how much they will pay for it (price).

- **Product:** Why do your customers buy and use your product or service? This is a trick question!
 - What value do your customers receive from your product or service?
 - What customer need does your product or service fulfill?
 - The answers are often surprising;
 - Customers don't buy construction services because they need a building. (They need the building's services.)
 - Clients don't retain accountants because they need a tax return. (They need confidence, comfort, and clarity.)
 - Your technical competence, except on rare occasions, is secondary to the comfort the customer receives by retaining you instead of someone else.
 - Your answers may depend on which customer or market segment you consider.
 - **Emphasize your customer's needs – not your own abilities.**
- **Place:** How will you deliver your product or service to your customers?
 - Consider your customers' industry, size, and geography.
 - Who are their stakeholders?
 - What constituencies do they answer to?
 - Who makes the final decision to secure your product or services?
 - Do some customers' structure influence delivery requirements? Consider a:
 - Municipality with many employees, "customers" in hundreds of locations, a decision chain that includes the mayor, city council, state and federal government, and is answerable to just about everyone for its operational impacts,
 - The same city's planning department, and
 - The regional accounting firm (with a single decision maker) that performs their audits.
 - Each of their delivery requirements differ.

- **Emphasize customer convenience: Make it easy to find you, evaluate your product or service, order it, receive it, use it, and recycle or dispose of it.**
- **Price:** What are your customers willing to pay for your product or service?
 - What will your customers use if they don't buy your product or service?
 - What does your competition charge for those products or services?
 - What distinguishes your product or service from your competitor's?
 - Will your customers pay a premium to obtain that added value?
 - Can you produce the product or service, in sufficient volume, at the price your customers are willing to pay?
 - Your costs have limited bearing on what customers are willing to pay.
 - Nevertheless, you need to make a profit to stay in business.
 - **Determine what the market will bear and charge accordingly. Know and respect your cost structure, but don't expect customers to recognize it.**
- **The Fourth P:** Yes, there is a Fourth P (Promotion). Until you know your customers' intimate needs and values, you can't address the Fourth P. You will gather that knowledge as your plan matures.

Determine the Scope of Your Plan

Determine the scope of your plan by defining which companies or company activities you wish to design the plan around. Your product or service market and your intentions determine the scope of your plan. Some options you might consider: Plan to,

1. Retain your market position in the products and services that you already produce, but develop more efficient, resilient, or sustainable ways to make, deliver, service and retire them. (Pay particular attention to your delivery model: Can you deliver the benefits of your product or service while retaining control of the product itself; adopt a service lease or chauffagiste model?)
2. Expand the market for a single product or service that you already produce (Consider not only your current and future customers for the product or service, but how you make, deliver, service, and retire it),
3. Expand the market for a product or service line that you already produce (Consider each product or service in isolation, then consider ways the products can be jointly marketed to leverage your promotional efforts: How do the individual products or services complement, substitute, or compete with each other?)
4. Enter the market for a product or service that you do not currently produce (Consider the ways your competition produces, delivers, services, and retires the product. Consider how you will integrate the product or service with your current offer. Does your corporate culture support the new product?)

5. Enter or expand your presence in a market by acquiring or merging with another company (Are your company cultures compatible? Are there economies to be realized? How will you achieve integration?)

How will you use your plan?

Regardless of its intended use, consider your business plan a living, dynamic document that guides tactical/operational efforts to achieve strategic objectives. As those methods and objectives mature, your plan evolves and matures. Consequently:

- Business planning is not an academic exercise.
 - You are not doing this for fun (frankly, it isn't all that entertaining), or
 - To prove you can follow an outline (the approach taken in most business schools).
 - Traditional "here is an outline, fill in all the blanks" planning serves no one's needs. It wastes your precious time.
- Plans are not immutable.
 - Circumstances change, plans should too.
 - If something isn't working according to plan, it's usually the plan not the process.
 - If something is working according to plan, the plan and the process may still be sub-optimal. Consider breaking it.
- Plans should not support "Business as Usual:"
 - Plan to facilitate innovations and efficiencies that support customer values.
 - Consider whether you (and your entire industry) operate optimally.
 - View benchmarks, industry statistics, and your historical data skeptically.
 - Should you emulate the average or median firm in your industry? Is there any point to doing so?
 - Is your own company's past performance worthy of emulation?
 - What do your toughest competitors do?
 - "Good enough," usually isn't.
 - Established processes breed substantial amounts of waste. Material usage, process time, transport, storage/inventory, sales/marketing, procurement, billing and collections can usually be improved - Often all at once. -Frequently at low cost.
 - Consider reading Womack & Jones' *Lean Thinking* before you review your systems.
- **Consider the systemic consequences of your plan. How does it affect your other operations? The narrower your plan's scope the more important this becomes.**

The plan's purpose influences what you consider: If you plan to:

- Improve existing operations:
 - Focus on your products' value stream.
 - Where is customer value created?

- Where is the waste? Are there steps in your product or service production, marketing, or distribution that don't create customer value?
- Look at the production steps, and at steps where inventory accumulates, material or product is transported, or customers access your systems.
- Expand operations or add products and services to your offer:
 - Focus on the customer value stream for existing competitive, complementary, or substitute services or products.
 - Identify and evaluate the competition: can you do it better than they can?
 - Identify (and address) the barriers to entry in the new markets.
- Seek Equity or Lender Capital
 - Focus on the capital source's requirements: Their Money, Their Rules.
 - "Interview" potential capital sources and some of their previous projects.
 - Beware of corporate culture clashes
- Expedite Management Succession
 - Focus on formal and informal communications and management systems (the organization chart and job description never tells the whole story).
 - Consider the current and future stakeholders monetary and security needs.
 - Examine both internal and external options.
 - Consider the role of corporate culture.
- Sell or merge the company
 - Focus on documentation needs
 - Consider your and your acquirer's corporate culture. (Are they compatible?)
 - Can your objectives be achieved through strategic partnerships or joint ventures?

Who are you doing this for, and why?

The audience for your plan determines what you include. There are two primary audiences: Internal and External. Broadly speaking, internal audiences want more nuts and bolts and fewer flourishes than external audiences.

- **The Internal Audience;** you, coworkers, employees, management, board, existing shareholders, suppliers, distributors, and (sometimes) customers
- **Primary Concerns;** profitability (ROI), risks, product, operations, marketing, and customer satisfaction
- **The External Audience;** 4Fs, Equity Sources, Lenders, Franchisees, Acquirers

- **Primary Concerns:** due diligence or fiduciary responsibilities, risk minimization, profitability (ROI), and exit strategy. They want to see it all and then ask for more!

Three Dirty Little Secrets of the “Business Plan Industry:”

1. Probably because it is sexier, the business plan industry focuses on External Audiences.

The business planning literature includes numerous outlines for successful business plan writing: much of it overkill if you are addressing an Internal Audience.

2. Some standard plans’ “required information” is pointless regardless of audience:

Does either a local tax preparer or their lender need to know the preparer’s penetration of national, state, and local tax preparation markets? Identify the preparer’s local market opportunities and their revenue potential. Quantifying penetration (negligible) serves no purpose. (But it impresses naïve readers with your thoroughness.)

3. External audience members often have their own content and format guidelines. Some (e.g. your 4Fs) are flexible others (e.g. SBA lenders) are not. Before you spend a lot of time following a standard outline (even ours), consider the audience and ask if they have specific requirements.

For an Internal Audience you probably don’t need to deliver a complete plan as fait accompli. In fact, you may be better served by introducing it gradually. Conceive the plan in Minimal Viable Product terms: Start small and work up. Team-build and enlist buy-in as you progress. Discover flaws in your basic assumptions before you deliver. This “Lean” approach facilitates both planning and implementation.

External Audiences and U.S. Securities Law:

If you talk to planners enough you will eventually hear; “You need a business plan so you can raise capital for your company.” The statement is both true and fraught with danger.

- **Truth:** Nearly every External Audience wants to see your plan.
- **Danger:** U.S. and state securities laws impose detailed disclosure requirements on anyone who offers to sell interests in a business to a “passive investor.”¹
- **Reality:** Most plans do not include enough risk disclosure, in the correct form, to satisfy those requirements.

Business plans are about possibility:

¹ “Passive investor:” Any investor who will not directly participate in managing the enterprise. Extremely sophisticated investors (Angels and V.C.s) and institutional lenders (banks, insurance companies, pension funds) are usually exempted. Your 4Fs are almost always “passive” even if they are very vocal. A special regime (Business Opportunity Laws) applies to potential Franchisees.

- They convey the merits of your product, service, company, and market to garner an enthusiastic reception.
- They are, invariably, optimistic. As one of Cambyses' favorite lenders observed: "I've never seen a business plan that predicted they'd augur in after a few months."²

Disclosure documents are about what can go wrong:

- They warn investors of hidden defects in your business plan: supply, production, marketability, taxes, international incidents, the weather, and the possibility the Mayans are right about when and how the world ends.
- They are, invariably, pessimistic: "Never promise anything;" and "When in doubt, disclose;" govern their drafting.

Capital hunting requires both tools.

If your plan addresses an External Audience, include qualified securities council on your planning team.

Gather your support

It must be remembered that there is nothing more difficult to plan, more doubtful of success, nor more dangerous to manage, than the creation of a new system. The initiator has the enmity of all who would profit by the preservation of the old institutions and merely lukewarm defenders in those who would gain by the new ones. Niccolo Machiavelli (1469)

Successful planning abhors a vacuum.

The more enthusiastic people you recruit from inside and outside the organization, the more meaningful and effective is the planning. Enthusiasm is not spontaneous. You build it and nurture it. Do some groundwork to:

Raise support for the planning process, the plan, and its implementation

Diplomacy comes first. Identify the key buy-ins that will make your process successful. Start with your own organization and work your way out.

- Executive support: "A fish rots from the head." So do planning initiatives. We have never seen a planning initiative succeed without the expressed enthusiasm of upper management. Whenever possible, demonstrate (flaunt is such an ugly word) that support through "dramatic gestures" or "all hands on deck" events. (see *Implement the plan "hands on"*)

² Charles Fenton, CEO and President, Tomato Bank
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Revised 08/2020

- The Change Agent: Someone must implement the plan. If that is you, fine. Otherwise, find an enthusiastic agent who is in a position to drive the change once your working group has decided what to do.
- Guarantees: People find change stressful. Offer guarantees that defuse the threat they perceive. Make sure you can deliver on them.³
- Anchor Draggers: Some people just aren't going to get on board. Identify them, find something else for them to do, or gently ease them out the door.

(Cautiously) engage outside constituencies

External constituents (government, not-for-profits, activists...) have opinions about what you plan to do and no inhibitions about expressing them. You face a choice: Constructive engagement now or fight with them later.

At this point in the planning conversation business people usually roll their eyes and treat Cambyes' facilitator like a dotty but otherwise harmless uncle.

The more direct of them say things like: "Why the h... would I invite the Sierra Club into my business?" To which we respond in time-honored "consultant-speak:"

1. "Keep your friends close and your enemies closer;" (demonstrate your erudition... or familiarity with pop culture platitudes),
2. "They will be, or already are, in your business whether you invite them in or not;" (demonstrate your grasp of reality), and
3. "They know stuff you don't;" (underscore your disdain for diplomacy and social skills)

If they don't fire us on the spot we progress to:

- Most activist organizations are so happy to be consulted that they go out of their way to be helpful and cooperative. That attitude often lasts through several iterations. (Government bureaucrats, on the other hand, may resent the intrusion)
- Organizations like the World Resources Institute and the Rocky Mountain Institute consult on resource productivity issues for corporations, governments, and other institutions. If nothing else, they know the players and the ground rules.
- Greenpeace and the Rainforest Action Network cooperate (for the most part peacefully) with the Forestry Service Council and several of the world's largest forest products companies. If these unlikely bedfellows can get along...
- Mitsubishi Electric re-envisioned their company with help from about 160 non-governmental environmental organizations.

Many U.S. not-for-profits (NFP) now offer "social business" initiatives. The NFP "sells" its services and expertise to individuals and for-profit businesses to support its not-for-profit constituents. Identify organizations that do this and engage them (or approach them and offer to help them develop a

³ This concept comes from Lean Management theory. Womack & Jones give examples in *Lean Thinking*

program). You will receive valuable information and public approbation while securing cooperation and neutralizing a potential threat. If that isn't a win, win, win, win then what is?

Recruit an enthusiastic interdisciplinary team

Most organizations find that interdisciplinary team planning works better than its main alternatives:

- “Solo acts” (e.g. plans formulated by the boss, treasurer, or controller and imposed as fait accompli) are often conceptually narrow and reflect planner biases more than company needs. They are deeply resented until they are disregarded entirely.
- Single discipline/departmental approaches don't fare much better. Such plans often optimize operations in one department (no extra points for guessing which one) while sub-optimizing or pessimizing other operations. They feel imposed from outside to most of the company, but lack the imprimatur of solo plans. They are not resented because they are usually disregarded immediately.

– resulting in “Plan in the Drawer Syndrome.”

In *The Wisdom of Teams* (Katzenback and Smith, Harvard Business School Press) the authors identify six elements of successful teams. Teams work best when they:

1. Are small enough in number,
2. Include adequate levels of complementary skills,

And have

3. A truly meaningful purpose,
4. Specific goals,
5. A clear working approach, and
6. A sense of mutual accountability

Implement the plan “hands-on.”

Envision your boss attacking storage racks with a power saw to kick off a Just In Time/inventory reduction program.⁴

It sends a clear message: Change is afoot! Upper management supports the change!

⁴ Wendelin Wiedeking (Porsche's operations director and future chairperson) and consultant Chihiro Nakao apparently staged just such an amputation to kick-off Porsche's revitalization campaign. According to Manfred Kessler, another Porsche executive, “It was the defining moment. Historically, senior management never touched anything in the plant and no one ever took such drastic actions so directly and quickly.” Reported by Womack, James P.; Jones, Daniel T. (2010-11-23). *Lean Thinking* (Kindle Locations 3698-3699). Simon & Schuster, Inc.. Kindle Edition.

Dramatic gestures are effective, particularly if done early in your program. If a chainsaw attack is inappropriate (e.g. to introduce a new workers' compensation product) or your 91 year old CEO isn't quite up to the task, arrange an "all hands on deck" event for the kickoff.

Taiichi Ohno, Toyota's irascible but brilliant production engineer, staged notoriously flamboyant entrances to kick off "improvement campaigns." Almost everyone who encountered Ohno Sensei has their own story. Ohno relates a few of them in his philosophical quasi-autobiography, *Workplace Management* (originally Productivity Press, 1988; later translation by Jon Miller, Gemba Press, 2007).

Communicate your progress

Perform, Evaluate and Learn, Reformulate, Maintain Enthusiasm, Repeat Often.

Ask for help, Say Thank You, Repeat as needed.

What more can we say (right now).