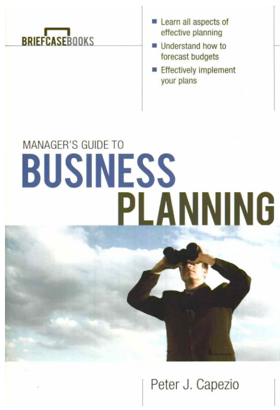
Dental WEALTH Builder
By Dr Bhavna Doshi

Manager's Guide to Business Planning

About the Author/s

Peter J. Capezio is the principal of Value Added Resources, bringing more than 25 years of experience in Fortune 500 companies to the consulting arena. The major emphasis of Capezio's work has been on developing and integrating business strategy and plans with organization planning and development. Capezio has authored books on the subjects of total quality management, team development, and leadership.



Author/s: Peter J. Capezio
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■ The Big Idea

Manager's Guide to Business Planning covers the key concepts related to developing plans:

1. *Developing the plan*. There are three types of plans. *Strategic plans* are high level, *business plans* focus on how to attain revenue projections, and *functional/department plans* describe how different functional areas will meet business objectives.
2. *Executing the plan*. Business plans are driven through the organization using strategy deployment. Strategy deployment tools include the Malcolm Baldrige Systems Perspective, the Balanced Scorecard, Hoshin Planning, the Driving Forces Wheel, and the McKinsey 7S Model.
3. *Engaging the workforce*. Three building blocks are needed to mobilize employees: (1) a *culture* that supports the achievement of plans, (2) a *communication process* with formal and informal components, and (3) a *structure process* that links planning tools to employees.
4. *Tracking performance*. Mechanisms to track results and report progress include monthly and quarterly business reviews, individual performance reviews, and annual organization-wide reviews.

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FEATURES OF THE BOOK

Reading Time: 4.5 hours, 190 pages

Manager's Guide to Business Planning is part of McGraw-Hill's Briefcase Books series. It provides practical information that is written in an easy-to-read, person-to-person style. In addition to dealing with strategic and tactical planning issues, each chapter offers many examples and how-to information. This book is relevant to managers at any level who are engaged in strategic planning, business planning, or functional/departmental planning. Ideally, Manager's Guide to Business Planning should be read cover-to-cover. However, it is not required. At the conclusion of each chapter, Capezio provides a "Manager's Checklist" that highlights the major points. In addition, there is a comprehensive index at the back of the book.

INTRODUCTION

When a business has implemented a successful planning process, every employee can see a clear link between the overarching company direction and the work they perform. In the book Manager's Guide to Business Planning, Peter J. Capezio provides businesspeople with a comprehensive review of the planning process. The book uses the Four P's of planning — prepare, plan, proceed, and produce — to illustrate the continuity that is necessary to generate business results from planning. No matter what industry readers work in, Manager's Guide to Business Planning defines what must occur from preparation for the planning process through the measurement of results.

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WHY PLAN?

Business plans have five major objectives: (1) they determine where the company needs to go, (2) they articulate the targets that will make the company successful, (3) they identify any potential roadblocks or contingencies, (4) they keep the business on track to reach its targets, and (5) they manage performance at the departmental and individual levels.

When planning for results, it can be helpful for managers to think about the three levels of planning that should take place in an organization.

1. Strategic Planning. Strategic planning determines product and service fit by analyzing the external and internal impacts on the business, as well as examining customers and markets. This information, in combination with a competitive analysis, results in strategies that will help a business grow and sustain profits over the long-term. The strategic planning process is driven by top management and should be conducted on a yearly basis.

2. Business Planning. Business plans are completed by all department managers in profit and cost centers. The goal of the business plan is to convey how revenue projections and fixed budget targets will be achieved. Business plans link departmental plans with business initiatives.

3. Functional/Departmental Plans and Business Initiative Planning. The functional/departmental planning process occurs on a yearly basis. In order for management to have visibility into real-time performance, a monthly report of progress against plans and initiatives is recommended.

Alignment occurs when the strategies of a company are aligned with the business plan. There should also be cross-functional alignment between functions and departments to identify interdependencies and determine if shared services are warranted. During the planning process for business plans and functional/departmental plans, it also can be helpful to examine variable and fixed costs for opportunities to reduce expenses without also decreasing service levels.

The business planning cycle may vary from business to business. Companies that have a calendar-year planning cycle engage in strategic planning in the June timeframe, so it can drive the annual business plan in August and the budgeting process in November.

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CREATING A BUSINESS PLAN

Business plans are an essential document for organizations — they serve the internal and external planning and communication needs for a company. The external value allows investors and customers to have visibility into the company’s strategy, so they will have confidence in the organization’s ability to achieve its results.

There are several possible paths that an organization can take for the planning process. Startup companies are likely to begin with the creation of a business plan and then follow up with operating and financial plans. In contrast, established companies may take one of two approaches. They may start with a strategic plan, follow with a business plan, and then complete functional/departmental operating plans. Alternatively, they may create a strategic plan and follow up simply with functional/departmental operating plans.

Managers should identify the main focus of a business plan upfront; this will help determine what to include and what information to emphasize. Business plans for startups typically focus on the steps that will be needed to create new products and services, as well as to win new customers. In contrast, internally focused plans are not intended for outside investors, banks, or other third parties. Growth-focused plans emphasize opportunities that may exist for new product lines, acquiring another business, or creating a major expansion of the existing business.

There are ten essential components of a business plan:

1. Executive Summary. This should cover the foundation of the company, including the market served, business structure, main business objectives, and advantages over the competition.

2. Company Summary. For startups, this section should showcase the experience and skills of the founder and key managers. It should also include a brief description of the startup plan.

3. Products and Services. This section describes the company’s products and services, as well as how they are positioned to serve current and future market segments.

4. Market Analysis. Here the plan should identify the reasons why customers will buy from the company, and the value proposition that underpins the company’s success.

5. Strategy Implementation. This section should describe the company’s high-level strategies and anticipated results. Strategic priorities should fit into one of the following categories: financial, customer, products and services, people, or internal capabilities.

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6. Competitor Analysis. This analysis should describe the strengths and weaknesses of key competitors.

7. Annual Operating Plan. Here the emphasis should be on the supply chain for manufacturing and delivering products and services. This data will help enable more detailed planning by managers in different sub-functions. Key areas to cover include: equipment, capital asset management, materials, production, quality, facilities, and plant and office space.

8. E-Commerce Strategy. This section explains how the company will conduct business over the Internet, if applicable.

9. Management Team Summary. In this portion of the plan, a description of each member of the company management team is provided. It should include their qualifications, accomplishments, and commitments to business success.

10. Financials. This section is very important to the startup and routine management of a company. The key elements are the income statement and the balance sheet.

In most organizations, each functional area will create an individual plan that supports the overall company business plan. These plans must be integrated together. Horizontal integration occurs before functional plans are finalized. Interdependencies between functions must be identified for the successful achievement of the overall business plan. One of the key takeaways from horizontal integration is agreement on shared responsibility for achieving results. Vertical integration occurs within a given function. Each team member must have a clear understanding of the functional plan's goals, and they should use that information to create an individual performance plan.

MEASURING BUSINESS PERFORMANCE

To create measurements and performance standards about how to achieve the results outlined in the business plan, company strategies and annual business plan imperatives must first be defined. The goal of these imperatives is to link the overall company direction with specific departments. Functional plans then incorporate the overall company strategies with the direction and objectives at the department level. The objectives within the functional plans should conform to the SMART criteria — that is, they should be specific, measurable, attainable, relevant, and timely.

In addition, an annual operating budget that covers categories like maintenance, improvement, and other initiatives like cross-functional projects should be developed for each department. The annual budget estimates are based on the total expenses that are required to meet the functional mission and major objectives.

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Human resource plans that define the skills and staffing levels needed to attain the desired company results must be created. In the staffing plan, Capezio recommends identifying the total number of full-time employees, including supervisors. Three approaches to the staffing plan are advisable: staffing at 100 percent of revenue, 75 percent of revenue, and 125 percent of revenue. This will help plan for contingencies during the business year as they arise.

To develop individual performance standards, each department must meet with every employee and link their work to overall company objectives. These meetings should establish expectations and standards of performance that will guide the measurement of employee performance and productivity. A well-written performance standard describes what will be accomplished and how the results of the actions taken will be measured. Like the functional plan objectives, performance standards should meet the SMART criteria.

A company must determine how it is performing in comparison to its plans. The best way to accomplish this is to conduct quarterly business reviews, along with feedback to employees about their performance. Quarterly reviews allow groups to assess whether things are progressing according to plan. If not, adjustments can be made and contingency plans can be activated. Annual reviews, in contrast, determine how well a company met its commitments to stakeholders and may determine the basis for rewards, such as bonuses.

EXECUTING THE COMPANY STRATEGY

Strategy deployment is a process that drives the business plan throughout the organization, resulting in alignment of the company priorities from the top to the bottom of the organization. A variety of tools can be used for strategy deployment; they can be applied before, during, or after creation of the functional plans:

- The Malcolm Baldrige Systems Perspective. The primary purpose of the Malcolm Baldrige Quality Award Program is to foster the improvement of quality, costs, and productivity. It takes a systems perspective that identifies the key components required to run a successful business. Seven categories are examined: (1) leadership, (2) strategic planning, (3) customer focus, (4) measurement, analysis, and knowledge management, (5) workforce focus, (6) process management, and (7) results.

- The Balanced Scorecard. This is the most commonly used framework for determining whether a company can execute its strategy. The scorecard uses a list of metrics that drive organizational success. The vision statement is the center of the balanced scorecard, and classic focus areas include the following perspectives: financial,

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customer, internal business processes, and people and learning. Other categories that are often used are growth and innovation, as well as core capabilities.

- Hoshin Planning. The Hoshin System is a complete planning and deployment process similar to the Management By Objectives (MBO) process developed in the United States in the 1970s. Its planning methodology defines a long-range objective without losing focus on the daily measurements needed to run a business.
- Driving Forces Wheel. Black and Decker North American Power Tools first used this tool as a means of focusing attention on key business drivers. The wheel includes financial excellence, fusion (breaking down organizational silos), speed to market, breakthrough thinking, measurement, impact versus activity, leadership, people development, and spirit and passion.

- Strategy Deployment Worksheet. This tool helps to align an organization and helps with functional planning. It tracks key result areas and objectives against the overall business plan and strategies.

- McKinsey 7S Model. This framework focuses attention on the seven factors that must be aligned for organizational excellence. The seven S's are: strategy, shared values, structure, systems, style, staffing, and skills.

ENGAGING EMPLOYEES WITH THE STRATEGY

To execute a business plan, employees must be engaged. Three building blocks are necessary to effectively mobilize the workforce:

1. a culture that supports the achievement of plans.

2. a communication process that has both formal and informal components.

3. a structured process that links planning tools to the employees.

Companies have the opportunity to build cultures that promote behaviors that lead to successful business results. Cultural influences — such as policies and work practices, company history, rituals, training, and leadership — can have a significant impact on shaping the company culture. To change a culture, employees must be re-educated, and new company norms must be established.

Another essential aspect of executing business strategies is the communication system. The communication system facilitates business planning, actions, and progress reporting during the year. Effective communication systems have two characteristics. First, the structure of the system has a process to guide information flow. Second, employees must

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use good communication practices and avoid communication pitfalls. Research has shown that the best method of communication to employees is through their immediate supervisor. However, other communication methods may be used, such as small group meetings, presentations, newsletters, and electronic media.

A framework called a "business cascade" can be a good way to mobilize employees. The business cascade provides a structure in which each employee can see the connections to the next level of planning. The business cascade may be used to introduce company strategies and objectives through deployment tools like the Balanced Scorecard. It may also be used to complete functional plans and to initiate individual performance plans.

TRACKING ACHIEVEMENT OF BUSINESS PLAN OBJECTIVES

Once a business plan has been completed, the organization must ensure that it is on track to achieving the desired results. Mechanisms must be implemented to track results and report progress on a monthly and quarterly basis. The key areas where progress monitoring will be necessary are the objectives included in the functional plan. This includes work related to operations, process management, and business initiative/project management.

Departmental and functional managers have a vested interest in monitoring objectives and projects. This information is also essential for quarterly and annual reviews. Progress tracking can be done with software, but it is also possible to use a simpler tracking tool such as an objective tracking form. Reporting by exceptions is a recommended way of focusing attention on the highs and lows of performance.

The most common reviews occur on a quarterly basis. These focus on the business performance that is related to the income statement. Balance sheets and cash flow statements should also be reviewed to ensure that they are consistent with the strategic and business plan objectives. Quarterly business reviews should focus on performance areas related to key measurements, budgets, forecast versus actual results, and other trends that may affect the business. If an organization discovers during the business review that it is not on track, corrections can be made.

For individual performance feedback, it can be useful to use employee-centered coaching. With this technique, the employee presents her strengths and improvement areas to the supervisor for review. In this type of forum, the supervisor can take on a coaching role. On average, most employees will recognize and present approximately 75 percent of their successes and areas for improvement.

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Organization-wide reviews are usually held once a year. They are designed to demonstrate how aligned the functions are and how human resources is positioned to help achieve objectives and plans. Organizational reviews have four important sections:

1. changes that have occurred over the last 12 months in the organization
2. a comparison of the current organization chart to future staffing needs
3. a succession plan
4. a discussion of challenges that must be addressed

MAKING CONTINGENCY PLANS

Capezio notes that over the past 20 years, many Fortune 500 companies have been acquired, merged with other organizations, or simply gone out of business. These events can be attributed the organization's inability to deal with changing market conditions and make the necessary adjustments. An ongoing challenge for companies is responding to rapidly changing market dynamics.

A good first step is to assess risks and to remove barriers that may inhibit progress toward company objectives. Capezio recommends conducting risk assessments early in the business year and as part of the objective planning process. Teams must look at the different risk factors, determine the degree of risk for each, and also assess the overall risk potential. Over time, the identified risk factors should be monitored on a periodic basis. This ensures that any problems will be identified rapidly and responses can be initiated.

A planning-and-action tool called the SCAN can be used to outline a potentially problematic situation and navigate to a successful result. The SCAN process can be used to develop contingency plans over the course of the business year. The steps required for SCAN include the following:

1. Situation. The first step is understanding the business situation. Teams should look for cues in the environment in order to identify functions or areas that need attention. The goal of the situation phase is to isolate a major challenge that must be addressed.

2. Challenge. The challenge selected in the situation phase is turned into a problem statement that describes what is occurring in terms of specific issues and concerns.

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3. Analyze. After the challenge phase, tools like cause-and-effect analysis can be used to identify the root cause and to create a solution to the challenge.

4. Navigation. The navigation phase includes developing an action plan and implementing the steps needed to solve the problem.

One proactive way to handle contingency planning is to conduct annual business tune-ups. These are designed to identify business situations that can be improved. For example, it may be possible to fine-tune the selling process. Oftentimes customer accounts receive attention that is not commensurate with their actual and potential sales volume. Classifying customers based on current sales and future potential can help identify where sales effort should be placed.

Business continuity plans are a special kind of contingency plan. They identify potential threats to an organization and provide a framework for building a response and recovery. Critical areas like information management, facility management, and security are all areas where a disaster could occur. Once the exposures are identified, company responses can be developed as part of a disaster recovery plan.

CREATING A LEARNING ORGANIZATION

A company that can adapt to change and learn from mistakes will have many opportunities to sustain its business in the marketplace. Capezio defines a learning organization as a company that can anticipate customer needs and respond to change rapidly. Employees in learning organizations have a strong desire to learn from different situations, and they strive to exceed their expected results. Learning organizations have the following characteristics: creation of learning opportunities, measurement of learning, and proactive learning about customers.

Learning styles vary from person to person. As a result, each employee should identify his preferred learning style and find the best ways to learn. The three dominant learning styles are visual, auditory, and tactile/kinesthetic. Visual learners use images, colors, and maps to organize information and communicate. In contrast, auditory learners prefer to listen to words and then create an image from them. Tactile/kinesthetic learners like to get involved in the learning situation and learn by doing.

Many organizations are not skilled at sharing knowledge that is gained through daily business operations. However, this ability is central to using rapid learning to gain competitive advantage. A technique called knowledge management can be used to speed the sharing of learning; organizations that employ knowledge management share

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information quickly between and within groups. Consequently, these companies generate ideas quickly and transform those ideas into innovative solutions.

There are a variety of approaches that can be used to promote organizational learning.

- Lessons Learned Analysis. In this technique, the positive and negative aspects of a project, program, or objective are analyzed. The results are then used to improve performance.

- GE Workout. The GE Workout was developed by General Electric in the late 1980s. It brings together small groups of managers, employees, and cross-functional team members to address key business issues. The group evaluates a business issue and presents its recommendations to senior leaders. The group then makes a decision about whether to move forward or not.

- Team Action Planning. The goal of Team Action Planning is for groups to devise actions that will address issues identified by management. The action plans should be immediately implementable and should have an immediate positive impact on department productivity.

PLANNING-RELATED PITFALLS

As teams begin to plan, Capezio offers ten basic planning tips that can help keep the work on track.

1. Recognize that planning requires time and energy.
2. When questions arise, reach out to business contacts, suppliers, trade associations, chambers of commerce, and government agencies for answers.
3. Incorporate long-term and short-term considerations in plans.
4. As situations and opportunities develop, use quick decision making to take advantage of them.
5. Managers should take responsibility for monitoring the plans.
6. Budgets are essential. A business cannot be run effectively without accurate budget forecasts.
7. Attract business students to internships by working with local colleges and universities.
8. Utilize the U.S. Small Business Administration as a resource.
9. Create policies and procedures that can be used to provide guidance on acceptable management practices and to set boundaries.
10. Pay attention to the company culture.

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Even when organizations follow these guidelines, it is still possible that teams will make mistakes during planning or fall into some typical traps. When employees are not engaged and involved in the planning process, trouble will arise. Missed meetings, incomplete plans, and missed deadlines are all early warning signals of a lack of involvement. Another issue is a lack of commitment. Managers should keep an eye out for individuals who become negative or critical when situations require adjustments on their part or on the part of the company. In some cases, supporting functional plans are never completed. Without these plans and their tracking information, large gaps are left in helping to achieve company objectives.

MAXIMIZING PERSONAL PRODUCTIVITY

The author notes that success in business planning and execution relies heavily on personal productivity skills. These skills help individuals get organized for implementation, improve their time utilization, present ideas effectively, and increase their ability to delegate work. The most common time-wasters that plague managers are crisis management, procrastination, ineffective meetings, interruptions, and lack of plans and priorities. Individuals who are successful at time management work on priorities that are both mission-critical and time-sensitive.

According to Capezio, there are three primary types of meetings in the workplace: informational meetings, advisory meetings, and problem-solving meetings. To make meetings more productive, Capezio recommends using the TOO Method, which stands for Topic, Objectives, and Outline. The first step is to identify the topic. A best practice is to allow only one topic to be covered per meeting. The second step is to establish the objectives. These are the expected outcomes from the meeting. The final step is to prepare the outline. This contains the steps that the meeting leader and attendees will follow to accomplish the objectives.

Another important skill is making effective presentations. To communicate effectively with audiences, it is essential to analyze oneself, the audience, and the situation. After conducting this analysis, it is possible to begin formatting the presentation. Work should focus on three key components: the introduction, the body, and the conclusion. During the presentation, managers should consider how to create a presence through appearance, language choices, pacing, and volume. After the presentation is complete, a Lessons Learned Analysis should be conducted.

When developing business plans, negotiation will inevitably occur. This type of discussion can be used to resolve a dispute, to reach an agreed-upon direction, or to satisfy diverse interests. The negotiation style that is used will often determine the outcome of the discussion. There are three major types of negotiation styles: competitive, avoidance, and accommodating. The competitive style focuses on winning at all costs. In

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contrast, the avoidance style seeks to avoid conflict and any engagement in a substantive discussion. The accommodating style focuses on pleasing the other party, but it can easily develop into a competitive style. The most effective negotiations incorporate the interests of both parties. While this approach may be more time-consuming, it tends to create more enduring agreements.

The last way to enhance personal productivity is to strike a balance between work and one's personal life. Capezio recommends assessing whether one's current balance is appropriate. It may be necessary to set explicit goals to free more time and to create a better balance. Other suggestions are to create a more flexible work schedule and to integrate work and family wherever possible.

ESSENTIAL PLANNING TOOLS

One of the keys to success in today's marketplace is the ability to identify and act on opportunities and issues that affect business performance. Seven tools are critical for success in the corrective action process:

1. Brainstorming. This is a flexible tool that uses group creativity to generate a large number of ideas.
2. Flowcharting. When tracking and influencing outcomes, it is essential to identify the key issues. The flowchart is one of the best techniques to apply to process and workflow situations. It can be combined with brainstorming to engage team members.
3. Check Sheets. These are used to gather data that identify how frequently, where, and when certain events occur.
4. Pareto Diagrams. Pareto charts are a type of vertical bar chart. They compare numerical data that typically comes from check sheet information.
5. Cause-and-Effect (Fishbone) Diagrams. Cause-and-effect diagrams can help represent the relationship between a problem's effect and all its potential causes. These diagrams are often populated with data from brainstorming, check sheets, or Pareto diagrams.
6. Prioritization Matrices. Ranking tools help support decision making that feeds into action plans. When teams use a prioritization matrix, they can be confident in the accuracy of the decision. These matrices can also increase the speed of decision making.
7. Action Plans. Action plans promote thorough and measurable implementation of plans.

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