Bankable Business Plans

Most people who aim at nothing ... ...hit it with remarkable accuracy!

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Fundamentals
Reporting and Planning Status Quo

Lag Outcomes
Fundamentals
Business Planning Process

Inputs → Activities = Outcomes
Strategy - how you are going to get there...

All roads lead to Rome, but which is the best?
Your Current Business Position….a few pre planning questions for you?

- Do you know how much time and effort is spent on non-value creating activities?
  - and do you know how much these activities are costing you?
- What about productivity and performance?
  - are they at levels that will keep you competitive and profitable?
- Do you have an objective view of what you are good at - and not so good at?
  - and do you know where you need to improve – and how much?
- Do you know how many customers are in jeopardy of leaving you this year?
  - or do you find out only when they have voted with their feet?
- And what about your team...how confident are you that your key players are satisfied in their roles?
  - or do you take silence as agreement and support?
Informed rather than intuitive intelligence
...the foundation stones of good planning...

- Understanding activity costs will allow you to allocate resources to achieve agreed business objectives, and make your business more efficient and effective.

- Having productivity and performance data will allow target setting and identify areas for improvement.

- You develop winning strategies only by playing to your strengths and opportunities, as well as dealing with weaknesses and threats... so you need to know what they are!

- Increased sales will only happen by really understanding what your customers experience is when they deal with you & what their wants are - WIIFM!

- Implementing strategic change will require the involvement of your TEAM - they have a front line constructive contribution to make and you won't do it without their buy-in.
A structured 5 phase approach to establishing your current business position + planning benchmarks

**Phase One:** Activity Analysis

**Phase Two:** Financial and Productivity Review

**Phase Three:** Strategic and Operational Review

**Phase Four:** Customer Scorecard

**Phase Five:** Team View
Phase 1: Why activity analysis is important

- Activities are **people doing things**
- Every business undertakes a range of **common activities** that can be mapped within a simple framework (like a chart of accounts)
- Activities drive costs
- Activities are how **plans are implemented**
- Changing your business direction, the way you operate, or making any change at all will require **changing the way an activity** is performed
- Understanding how much time is invested in each activity is central to assessing your **effectiveness** (that people are doing the things that help achieve your business objectives, i.e. the right things) and **efficiency** (that the people are doing these things well)
- Mapping your business’s activities allows measurement of **improvement over time** or **comparison** with other businesses
At the highest level we aggregate activities into three groups of functions...

<table>
<thead>
<tr>
<th>Strategic Management Functions</th>
<th>Value Creating Functions</th>
<th>Support Functions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic management covers those activities that set and <strong>manage the direction</strong> of the business and includes strategy, policy, performance management and corporate governance.</td>
<td>All the activities that <strong>create value</strong> in what the business does are considered to be part of the business’s value chain or as it is sometimes expressed “core business activities.”</td>
<td>These are all the supporting activities, i.e. those things that <strong>enable</strong> the business to run. This includes activities like accounting, people management and IT.</td>
</tr>
</tbody>
</table>
What is your investment for each high level functional group?

**Time Devoted to Each Functional Group**
- 22% Strategic Mgmt.
- 21% Value Creating
- 57% Support

**Labour Cost of Each Functional Group**
- €250,893 Strategic Mgmt.
- €211,258 Value Creating
- €1,264,727 Support

*This high level view provides insight into time and cost invested in creating value for customers, working ON the business and providing the necessary support.*
The next step breaks these functional groups down to individual functions...

**Strategic Management Functions**
- Develop Vision and Strategy
- Plan and Manage Funding
- Set Policies and Manage Performance
- Manage External Stakeholders

**Value Creating Functions**
- Design
- Production
- Marketing
- Selling
- Customer Service

**Support Functions**
- Accounting and Finance
- Physical Resource Management
- People Management
- Information and Technology Management
So what is your investment in each individual function in your business?
Each function is broken down into the activities that comprise it - e.g. for Production

- **Design**
- **Production**
- **Marketing**
- **Selling**
- **Customer Service**

**Function Summary**

- **18,919 Hours**
- **53.1% of Time**
- **€818,000**
- **47.4% of Cost**

![Graph](image-url)

- **Purchasing and procurement**
- **Produce products/services**
- **Managing production**
- **Delivery**

**Annual Hours**

- **Annual Labour Cost**
  - €0
  - €50,000
  - €100,000
  - €150,000
  - €200,000
  - €250,000
  - €300,000
  - €350,000
  - €400,000
  - €450,000

**Phase 1**
Knowing where your competencies are is vital - e.g. competency assessment of all activities in the value creating functional area...
<table>
<thead>
<tr>
<th>Level</th>
<th>Count</th>
<th>Strategic Management</th>
<th>Value Creating</th>
<th>Support</th>
</tr>
</thead>
<tbody>
<tr>
<td>CEO</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Senior Managers</td>
<td>2</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Supervisors</td>
<td>5</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Team Members</td>
<td>50</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Support</td>
<td>3</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
How activity analysis contributes to the planning process

- Activity analysis provides a unique insight into what activities are consuming available labour resources and for how long (for all people across all activities)
  - It shows where costs are actually incurred and not how they are recorded
- Combining this information with traditional financial data allows real calculations of productivity
- You can make an internal assessment of areas of core competence of the business which can be subsequently tested from other perspectives
- The next stage is to examine the outputs to measure productivity and performance
Traditional financial statements are **lag indicators** of recent business performance

- However, when subjected to **non traditional analysis** & **combined** with other key information about the business’s output and with information from the **activity analysis**, a more insightful picture emerges.

- Numbers do not lie - as long as you use meaningful and comprehensive numbers - you will get a true picture of the **trends & patterns** in your business.

- The results can be used to develop further **qualitative assessment** as the overall position of the business.
Financial ratio analysis is a powerful starting point...

**Key Data:**
- Annual sales: €12.48 million
- Total Assets: €2.14 million

*Where each £ of Sales goes*

<table>
<thead>
<tr>
<th></th>
<th>Benchmark</th>
<th>Your Business</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cost of Sales</strong></td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td><strong>Selling &amp; Marketing</strong></td>
<td>5%</td>
<td>5%</td>
</tr>
<tr>
<td><strong>General &amp; Admin</strong></td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td><strong>Other</strong></td>
<td>20%</td>
<td>20%</td>
</tr>
<tr>
<td><strong>Net Profit</strong></td>
<td>20%</td>
<td>20%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Return on Total Assets %</th>
<th>2002</th>
<th>2001</th>
<th>B'mark</th>
</tr>
</thead>
<tbody>
<tr>
<td>0%</td>
<td>20%</td>
<td>40%</td>
<td>60%</td>
</tr>
<tr>
<td>10%</td>
<td>80%</td>
<td>100%</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Receivables Days</th>
<th>2002</th>
<th>2001</th>
<th>B'mark</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>103</td>
<td>59</td>
<td>21</td>
</tr>
</tbody>
</table>

Graphic presentation of key financial information makes for easier understanding
### Financial Ratios - Return on Investment

<table>
<thead>
<tr>
<th>Year</th>
<th>EBITDA Margin</th>
<th>Asset Turnover</th>
<th>Revenue</th>
<th>Total Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>9.55%</td>
<td>1.54</td>
<td>2,482</td>
<td>1,613</td>
</tr>
<tr>
<td>2010</td>
<td>-5.40%</td>
<td>1.85</td>
<td>3,910</td>
<td>2,113</td>
</tr>
<tr>
<td>2011</td>
<td>4.94%</td>
<td>2.61</td>
<td>6,216</td>
<td>2,385</td>
</tr>
</tbody>
</table>

**ROI**

- 2009: 14.69%
- 2010: -9.99%
- 2011: 12.87%
An analysis of customer gains and losses provides insight into marketing and sales performance...

Key Data:  
- Total No. of Customers: 235
- Av. annual sales per customer: €53,106

Customer Turnover

<table>
<thead>
<tr>
<th>Year</th>
<th>Gains</th>
<th>Losses</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>207</td>
<td>-44</td>
</tr>
<tr>
<td>2003</td>
<td>235</td>
<td></td>
</tr>
</tbody>
</table>

Customer Movements

- Total customer net movement = +14%
- Retention rate = 79%
- Turnover rate = 21%

Average Customer Relationship

- 17 months
- Start
- Leave

We focus on key operating metrics as well as financial ones
Where did my cash go?

2011

[Graph showing cash flow]
Business Health - Index

- High Risk
- Uncertain Risk
- Low Risk

© ROCG - Page 22
Combining the financial statements and activity analysis generates a substantial amount of:

- **Hard Data**

- **PIP exploration**
  1. Most Profitable Products
  2. Most Profitable Customers
  3. Cost Drivers
  4. Productivity Drivers
  5. Cash Flow Impact Factors
  6. Critical Success Factors
  7. KPI’s

_A limited offer for you…_

_A BPR review of your financials to kick start your planning process_
Phase 3: A capability assessment shows your strategic position & operational capability

- Any business leader must continually be considering the external environment in terms of the opportunities and threats presented.
- Additionally, an assessment of the strengths and weaknesses of the business must be understood.

Subjective  Analytical Review  Objective
Industry  
Competition  
Technology  
Customers  
Business Environment  
Stakeholders
Assessing the external environment is best achieved by breaking it into constituent areas. This is a holistic “audit” of your business, and looks at many areas a balance sheet does not assess.
This “audit” will provide quantified output on every key dimension of your business...

The strategic position and operating capabilities of the business should be considered in light of the hard data gathered in the earlier stages.

Phase 3
Finance
Products And Services
Systems And Processes
Marketing And Sales
People
Drill down the “audit” to more detailed performance map - Products And Services
Phase 4: The customer view - the one that really matters

- You may have an acceptable financial performance, a stable team, and clear direction in your mind, but ..... 
  - ....an undercurrent of dissatisfaction may exist amongst your customers that is not yet reflected in your lag indicators
- Often an external, independent facilitator can gain your customers’ views on the business in a way that you never can
- Most customers actually appreciate being asked their opinion in an objective, constructive, independent way – it reflects well on your business and shows you do really care and listen
Customers go through a cycle of contact with a business. The Customer Scorecard measures the “experience” of the customers at each contact point.
Your customer’s experience is measured in the five key stages of the contact cycle…

- After Sales Service/Support
- Profile and Reputation
- Product/Service Performance
- Marketing Effectiveness
- Sales Process
Customer Scorecard Result

Customer Status

- Loyal or Advocates
- Restless
- Looking around
- Out of here

Customer Scorecard

1st Quartile

This rating means your customers are between 50% and 75% satisfied with their experience with you. (50% means just acceptable)
Why the customer view is important in the planning process...

1. To **test** the understanding developed during the internal reviews – Activity, Financial & Capability

2. The views of the customer **are paramount** and should never be assumed

Setting up the customer meeting can take some time and needs good planning, and time efficiency ... for best results use an independent facilitator
Phase 5: TEAM - a view from your people

- Most people spend too much of their lives at work not to care and have opinions about their workplace.
- There will always be more of them than you, and they see the world from a very different perspective.
- Many of them also spend most of their day with your customers and have first hand valuable knowledge.

As with customers, an externally facilitated session is usually appreciated and provides more constructive feedback.
Comparing the TEAM perspective to the customer’s reality...

This slide indicates issues in after sales support and marketing – this needs to be compared back to competency assessment in the activity analysis to identify source of the problem.
This slide indicates management have a very different perception of the vision and culture than the team.
Important feedback will be received from the Team on how they perceive they are being managed...

This slide indicates the team think performance assessment and team departures are not managed well.
Why the team view is important to planning...

1. In particular, if there are to be strategic initiatives arising out of any of the preceding phases, you really need to know if your team is likely to be onside or not.

2. The TEAM has a lot to offer, this is a good way of getting their input and buy in.

3. Most people are not indifferent to where they work – they want to be involved and they want to work in successful enterprises.
Knowledge Based Planning

Current Business Position

Activity Analysis

Financial | Productivity

Strategic | Operational

Customers

Team

Options

Evaluation

Strategy
A key outcome is to identify Opportunities & Threats | Strength's & Weaknesses... here are some typical ones

<table>
<thead>
<tr>
<th>Opportunities</th>
<th>Threats</th>
<th>Strengths</th>
<th>Weaknesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>New products or services</td>
<td>Emergence of substitute products</td>
<td>Effective sales channels</td>
<td>High dependence on a single product group for revenue</td>
</tr>
<tr>
<td>New customers and new markets</td>
<td>Emergence of new competitors</td>
<td>Strong cash flow</td>
<td>No corporate brand</td>
</tr>
<tr>
<td>Expansion through horizontal or vertical integration/acquisition</td>
<td>Changing market conditions</td>
<td>Good customer base</td>
<td>Inadequate people development system</td>
</tr>
<tr>
<td>New distribution channels</td>
<td>Changing consumer preferences or demographics</td>
<td>Experienced team</td>
<td>Poor financial performance</td>
</tr>
<tr>
<td></td>
<td>Adverse economic or regulatory conditions</td>
<td>Strong brand</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Efficient supply chain</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Effective marketing</td>
<td></td>
</tr>
</tbody>
</table>
## SWOT - Strengths

<table>
<thead>
<tr>
<th>Question</th>
<th>SWOT Item</th>
</tr>
</thead>
<tbody>
<tr>
<td>100</td>
<td>Reps have good understanding of customer requirements</td>
</tr>
<tr>
<td>80</td>
<td>Customer service is always being enhanced</td>
</tr>
<tr>
<td>95</td>
<td>High stock turn, few out of stocks</td>
</tr>
<tr>
<td>60</td>
<td>Team is motivated and willing to go the extra step</td>
</tr>
<tr>
<td>25</td>
<td>greater volume of transactions will reduce per unit logistics cost</td>
</tr>
<tr>
<td>63</td>
<td>Customer service easily exceeds that offered by competitors</td>
</tr>
<tr>
<td>97</td>
<td>Exclusive agencies with suppliers for some key products</td>
</tr>
<tr>
<td>64</td>
<td>Able to move quickly to take advantage of tactical opportunity</td>
</tr>
<tr>
<td>93</td>
<td>Warehouse could handle a fair bit more volume</td>
</tr>
<tr>
<td>137</td>
<td>Strong processes in Operations</td>
</tr>
<tr>
<td>94</td>
<td>Realtime inventory information</td>
</tr>
<tr>
<td>92</td>
<td>Good understanding of profitability of each product - result of custom pricing models</td>
</tr>
<tr>
<td>135</td>
<td>Team members are motivated</td>
</tr>
<tr>
<td>73</td>
<td>CEO's son, Mark, is coming on as a successor. Very computer literate</td>
</tr>
<tr>
<td>103</td>
<td>Customers loyal</td>
</tr>
<tr>
<td>148</td>
<td>Accounts receivables well managed</td>
</tr>
<tr>
<td>81</td>
<td>All good ideas are appreciated</td>
</tr>
<tr>
<td>67</td>
<td>Great mgmt strength in existing business</td>
</tr>
</tbody>
</table>
### SWOT - Weaknesses

<table>
<thead>
<tr>
<th>Question</th>
<th>SWOT Item</th>
</tr>
</thead>
<tbody>
<tr>
<td>162</td>
<td>Returns from business are declining</td>
</tr>
<tr>
<td>45</td>
<td>CEO has health issues</td>
</tr>
<tr>
<td>48</td>
<td>No documentation of succession process to CEO’s son</td>
</tr>
<tr>
<td>65</td>
<td>Thinking is all tactical and not strategic</td>
</tr>
<tr>
<td>61</td>
<td>Strategies not documented nor clearly defined</td>
</tr>
<tr>
<td>15</td>
<td>Organisation structure is not clearly defined</td>
</tr>
<tr>
<td>154</td>
<td>Cashflow forecasts not regularly produced</td>
</tr>
<tr>
<td>62</td>
<td>KPI's neither documented nor measured</td>
</tr>
<tr>
<td>37</td>
<td>No ordering through website</td>
</tr>
<tr>
<td>69</td>
<td>Lack of job descriptions</td>
</tr>
<tr>
<td>141</td>
<td>No documented IT security procedures</td>
</tr>
<tr>
<td>123</td>
<td>No formal team member performance monitoring</td>
</tr>
<tr>
<td>36</td>
<td>No integrated supply chain process</td>
</tr>
<tr>
<td>55</td>
<td>No internal communications plan</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Question</th>
<th>SWOT Item</th>
</tr>
</thead>
<tbody>
<tr>
<td>76</td>
<td>Strong performers not identified and developed</td>
</tr>
<tr>
<td>79</td>
<td>Bonuses focus on individual, not the team</td>
</tr>
<tr>
<td>82</td>
<td>CEO reviews all important decisions</td>
</tr>
<tr>
<td>57</td>
<td>KPI's not documented</td>
</tr>
<tr>
<td>143</td>
<td>No documented IT strategic plan</td>
</tr>
<tr>
<td>145</td>
<td>No formal quality mgt system</td>
</tr>
<tr>
<td>129</td>
<td>Few documented job descriptions</td>
</tr>
<tr>
<td>64</td>
<td>Been thinking about changing strategy for a while but made no moves yet</td>
</tr>
<tr>
<td>79</td>
<td>Few bonuses on offer</td>
</tr>
<tr>
<td>57</td>
<td>Mgrs not judged against KPI's</td>
</tr>
<tr>
<td>137</td>
<td>Weak processes in Admin</td>
</tr>
<tr>
<td>119</td>
<td>No formal induction process</td>
</tr>
</tbody>
</table>
## Opportunities

<table>
<thead>
<tr>
<th>Question</th>
<th>SWOT Item</th>
</tr>
</thead>
<tbody>
<tr>
<td>39</td>
<td>Customers loyal because of good service provided</td>
</tr>
<tr>
<td>42</td>
<td>Move into computerised security products</td>
</tr>
<tr>
<td>47</td>
<td>Obtain long term debt funding</td>
</tr>
<tr>
<td>52</td>
<td>Consumers are more fearful as a result of terrorism and more interested in security</td>
</tr>
</tbody>
</table>

## Threats

<table>
<thead>
<tr>
<th>Question</th>
<th>SWOT Item</th>
</tr>
</thead>
<tbody>
<tr>
<td>59</td>
<td>Business is mature, margins are declining</td>
</tr>
<tr>
<td>22</td>
<td>Growth in industry depends on growth in housing sector</td>
</tr>
<tr>
<td>21</td>
<td>Mature industry</td>
</tr>
<tr>
<td>29</td>
<td>Supplier could move downstream and become a distributor</td>
</tr>
<tr>
<td>98</td>
<td>Brand only known to existing customers</td>
</tr>
<tr>
<td>56</td>
<td>No protection against maturity of business</td>
</tr>
</tbody>
</table>
Your strategic position impacts the level of acceptable.... Risk...

- **Numerous Opportunities**
  - Need to be careful about taking on risks
  - Positioned to take on higher risk options

- **Critical Weaknesses**
  - Should only consider very low risk options

- **Major Strengths**
  - Can pursue higher risks with caution

- **Significant Threats**
  - "Selectively Expand"
  - "Aggressively Develop"
  - "Shore Up"
  - "Acquire"
  - "Defend"
  - "Diversify"
  - "Exit"
Strategy – how you are going to get there…

All roads lead to Rome, but which is the best?
How do we develop alternative strategic options, evaluate and select the preferred option…

• To develop alternative strategic options we need to assess the current strategic position of the business and what impact this has in terms of the aggressiveness and risk of options considered

• Then brainstorm a range of options using opportunities and strengths identified

• Finally evaluate options to identify the preferred way forward
Brainstorming “out of the box” ideas generates new directions...

- To brainstorm the range of future scenarios for the business conduct a workshop (with a cross section of people?)
- You will involve internal people (and some outside input?) as needed
- Use whiteboards/flipcharts to generate ideas
- Get away from the “shop” to stimulate the juices
- Options are generated by taking each opportunity and “debating” how the business can exploit it
- Threats need to be looked at in terms of what can be done to mitigate and what impact they will have on the existing business
Idea generation

BRAINSTORMING SESSION

CAPTURE IDEAS

- CUSTOMERS LOYAL BECAUSE OF GOOD SERVICE PROVIDED
  - Type your ideas here...
  - Raise customer service levels

- MOVE INTO COMPUTERISED SECURITY PRODUCTS
  - Type your ideas here...
  - Become reseller of computerised locks

- OBTAIN LONG TERM DEBT FUNDING
  - Type your ideas here...
  - Arrange long term bank loan

- CONSUMERS ARE MORE FEARFUL AS A RESULT OF TERRORISM AND MORE INTERESTED IN SECURITY
  - Type your ideas here...
  - Source and sell personal security products
<table>
<thead>
<tr>
<th>Idea</th>
<th>Rocket</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cull less profitable products</td>
<td>Products and Services</td>
</tr>
<tr>
<td>Define and document organisation structure</td>
<td>People</td>
</tr>
<tr>
<td>Launch fortnightly promotional specials</td>
<td>Products and Services</td>
</tr>
<tr>
<td>Raise prices</td>
<td>Products and Services</td>
</tr>
<tr>
<td>Complete strategic planning process</td>
<td>Systems and Processes</td>
</tr>
<tr>
<td>Define internal communications strategy</td>
<td>Strategy</td>
</tr>
<tr>
<td>Ask for ideas from team members</td>
<td>Culture</td>
</tr>
<tr>
<td>Prepare succession project plan</td>
<td>People</td>
</tr>
<tr>
<td>Implement integrated ERP system</td>
<td>Systems and Processes</td>
</tr>
<tr>
<td>Produce weekly cashflow forecasts and monitor daily</td>
<td>Finance</td>
</tr>
<tr>
<td>Review profitability of each product and cull less profitable lines</td>
<td>Products and Services</td>
</tr>
<tr>
<td>Optimise customer service - remove any &quot;Rolls Royce&quot; features</td>
<td>Products and Services</td>
</tr>
<tr>
<td>Communicate strategies to the team</td>
<td>Culture</td>
</tr>
<tr>
<td>Identify and document Admin processes</td>
<td>Systems and Processes</td>
</tr>
</tbody>
</table>
All strategic ideas will fall into one of four areas...

1. Status Quo
2. Business Extension
3. Business Development
4. Step Out

Existing Services

New Services

Existing Clients

New Clients
Filter brainstorming ideas with regard to your risk profile...

- **New Services**
  - Business Development
    - Launching New Services
  - Step Out
    - Major New Strategic Direction

- **Existing Services**
  - Operational Improvement Focus
    - Status Quo
  - Attacking New Markets
    - Business Extension

- **Existing Clients**
- **New Clients**

- **Risk Levels**
  - Maximum risk
  - Moderate risk
  - Low risk
  - Higher risk

---

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### Assign Strategic Ideas

<table>
<thead>
<tr>
<th>CLASSIFIED</th>
<th>EXISTING PRODUCT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sell to cabinet makers</td>
<td>Offer outsourced inventory mgt consulting service</td>
</tr>
<tr>
<td>Sell to safe manufacturers</td>
<td>Offer logistics consulting services</td>
</tr>
<tr>
<td>Sell to hardware stores and hardware superstores</td>
<td>Provide outsourced logistics to other companies to increase Operations throughput</td>
</tr>
<tr>
<td></td>
<td>Mark to investigate computerised security opportunities</td>
</tr>
<tr>
<td></td>
<td>Provide outsourced warehouse service</td>
</tr>
<tr>
<td></td>
<td>Provide outsourced logistical services</td>
</tr>
<tr>
<td></td>
<td>Enter remote lock monitoring business</td>
</tr>
<tr>
<td><strong>BUY LOCKSMITHS</strong></td>
<td></td>
</tr>
<tr>
<td><strong>NEW CUSTOMER</strong></td>
<td><strong>EXISTING CUSTOMER</strong></td>
</tr>
<tr>
<td>Buy locksmiths</td>
<td>Source and sell personal security products</td>
</tr>
<tr>
<td>Arrange long term bank loan</td>
<td></td>
</tr>
<tr>
<td>Obtain more exclusive agency arrangements</td>
<td></td>
</tr>
<tr>
<td>Design and produce own lock and key products</td>
<td></td>
</tr>
<tr>
<td>Source own product by designing and arranging contract manufacture</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase brand profile so that customers ask for Dave's products</td>
<td></td>
</tr>
<tr>
<td><strong>NEW PRODUCT</strong></td>
<td><strong>EXISTING PRODUCT</strong></td>
</tr>
</tbody>
</table>
• Increased **objectivity** can be achieved by selecting evaluation criteria (before the options are identified) and using these to do an objective evaluation

• You cannot decide the best course for the company until you **decide what is important** to you

• We will apply evaluation criteria to the filtered list of options (we won’t do it for all options as it will take too long)
## What's the impact?

### Assess Idea Impact

<table>
<thead>
<tr>
<th>IDEA: Offer outsourced inventory mgt consulting service</th>
<th>IMPACT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vision</td>
<td>Revised vision</td>
</tr>
<tr>
<td>Strategy</td>
<td>New strategies</td>
</tr>
<tr>
<td>Structure</td>
<td>New structure</td>
</tr>
<tr>
<td>Culture</td>
<td>Change in culture</td>
</tr>
<tr>
<td>Products &amp; Services</td>
<td>New service</td>
</tr>
<tr>
<td>Marketing &amp; Sales</td>
<td>New marketing campaign</td>
</tr>
<tr>
<td>People</td>
<td>New people</td>
</tr>
<tr>
<td>Systems &amp; Processes</td>
<td></td>
</tr>
<tr>
<td>Finance</td>
<td>$30K to fund developing of marketing material and recruitment of staff. Should be profitable – NPV esti...</td>
</tr>
</tbody>
</table>
### Evaluation - using a stoplight chart...

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Score for each Option</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Attractiveness of Business Model</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consistency with Strategic Positioning Analysis</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shareholder Value Creation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Risk Assessment (Threats and Weaknesses)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fit with Family Objectives</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Level of Capital Required</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Timeframe for Success</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
A key outcome is the preferred option...

- The preferred option is the new vision for the business
- We need to document the new way forward in terms of products/services provided, customers sought after and how the business will make a profit
- This is what we define as our business model
Now develop the strategic business plan that will deliver the vision...

- We need to expand the Business Model into a full strategic business plan
- The strategic business plan will be the roadmap that takes the business to its desired vision
- It will outline goals for each functional area of the business, which, if achieved, will ensure the vision becomes a reality
The Strategic Business Plan Outline…

Vision

- quality & Service, value proposition, life cycle

Marketing Goals
- customer segment, marketing position, market share, awareness levels

Products/Services Goals

- Revenues, profit, ROA, business value

Sales Goals

- how market goals will be achieved (channel, distribution, brand)

People Goals

- what people are needed to make it happen (headcount, qualifications, experience, capability to deliver core competence)?

Culture Goals

- what underlying values of our culture are needed to support vision and brand?

Systems & Processes Goals

- what systems and processes (with enabling technology) are needed to make it happen?
Building a Strategy
Goals and objectives...

- A goal is a qualitative statement
  
  e.g. Our marketing goal is to be number one or two in our chosen market

- Each goal can be translated to an objective that can be measured. Objectives are important because they are things we can measure:
  
  e.g. To be number one or two, we will need to have revenues of £5M by 2005
Goals & Objectives

DEFINE YOUR OBJECTIVES

BUSINESS MODEL DRIVERS
- PRODUCTS & SERVICES
- MARKETING & SALES
- FINANCE

CURRENT POSITION FOR MARKETING & SALES

HOW OUR PRODUCT IS TAKEN TO MARKET:
We have sales reps in Sydney, Melbourne and Perth who visit locksmiths, to win new relationships and extend the product lines and brands they stock. All orders are faxed or phoned in.

We do not advertise. All customers receive a comprehensive product catalogue.

OUR CUSTOMER ACQUISITION STRATEGY:

IDEAS THAT IMPACT ON MARKETING & SALES
- Mark to investigate computerised security...
- Look for counter cyclical products that don...
- Sell to cabinet makers
- Source and sell personal security products
- Enter remote lock monitoring business
- Enter computerised lock business
- Design and produce own lock and key pro...
- Source own product by designing and arra...
- Sell to safe manufacturers

LONG TERM MARKETING & SALES OBJECTIVES:
- Become reseller of computerised locks and earn revenue of $125K
- Earn $75K in revenue from sales to safe and cabinet manufacturers

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Set Milestones & Timelines

DEFINE YOUR OBJECTIVES

<table>
<thead>
<tr>
<th>BUSINESS MODEL DRIVERS</th>
<th>VISION</th>
<th>BUSINESS MODEL ENABLERS</th>
</tr>
</thead>
<tbody>
<tr>
<td>VISION</td>
<td>STRATEGY</td>
<td>STRUCTURE</td>
</tr>
<tr>
<td>CULTURE</td>
<td>PRODUCTS &amp; SERVICES</td>
<td>MARKETING &amp; SALES</td>
</tr>
<tr>
<td>PEOPLE</td>
<td>SYSTEMS &amp; PROCESSES</td>
<td>FINANCE</td>
</tr>
</tbody>
</table>

**MILESTONES**

<table>
<thead>
<tr>
<th>OBJECTIVES</th>
<th>DUE DATE</th>
<th>MEASURE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Identify appropriate organisations</td>
<td>29/10/2004</td>
<td>20</td>
</tr>
<tr>
<td>Develop selection criteria</td>
<td>24/11/2004</td>
<td>40</td>
</tr>
<tr>
<td>hold beauty parade</td>
<td>07/01/2005</td>
<td>60</td>
</tr>
<tr>
<td>Select organisation</td>
<td>16/03/2005</td>
<td>80</td>
</tr>
</tbody>
</table>

**INITIATIVES**

Type your Initiatives here...

Involves mark in all stages of process
Milestones and timelines for the strategic business plan...

- Set up project milestones, timelines and resources
Next... Identify the critical success factors...

- Critical success factors (CSF) are the things that must happen for the objective to be achieved
- CSFs should be determined for each business objective
- Each objective needs to contain at least one CSF and may contain several

*e.g. To achieve €5M in revenues, the CSFs would be*

- to generate 10 new customers per month
- to retain 99% of existing customers
- to increase average sales per customer to €750

- The CSFs then almost becomes objectives in themselves
Now you have a solid springboard to develop your fully integrated financial plan....

- Strategy that links future inputs, activities and output from a realistic baseline assessment of current business position
- Clearly defined objectives and goals with critical success factors outlined
- Resource investment outlined and prospective returns defined
- Clear timelines for each initiative

Remember this is an iterative process and you may have to flex your plans more than once
The Bankable Business Plan
Assessing Funding Risk - Financial and Commercial

Analysis

- Most of a company's business risk and therefore a bank's credit risks originate in the non-financials
- The emphasis is on understanding cash flow—sales is vanity, profit is sanity but cash flow is reality!
- Analysis is required for business development as well as credit assessment
- Cashflow-based and asset-based approaches to funding are different

3 Fundamental Credit Questions

1. Ability to service and repay out of the cash flow?
   THE GOING CONCERN TEST

2. Can the borrowing be repaid from the proceeds of a forced sale?
   THE GONE CONCERN TEST

3. Does the company need more funding in the future?
The Debt Equity Conundrum

Equity

- Providers accept more risk and receive more upside – return on money is more important than return of money
- Risk money shares the upside but is lost in the downside

Debt

- Lenders accept less risk because they receive less reward – return of money is more important than return on money
- Does not share in the upside – returns to the provider are fixed and low and therefore must be protected from downside

Loan Value – Balancing the Interests

HIGH DEBT %
HIGHER RATE OF RETURN

INVESTOR

LOW DEBT %
HIGHER COVER RATIOS

BANKER
Designing Debt - implications for restructuring post credit crunch in the UK

- It's a jungle out there (especially in the more complex structures)
  - Debt trading 'musical chairs'
  - Differing agendas
  - London 'Gentlemen's' Rules out the window
  - Hold out positions common

- In many situations, syndicate paralysis has allowed debtors to lead the agenda
The Biggest Inhibitor to Planning & Growth

A limited offer so you don’t FTI…

A BPR review of your financials to kick start your planning process

FTI

Pathfinding your Business

Business Transition & Succession

Monitoring your Business

Managing your Cash

Valuing your Business

Operational Problem Solving

Mining your Customers

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