



The Osborne Report

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Business plans: hard to create but essential and worth the effort

There are probably as many definitions of a business plan as there are management texts but Osborne Principal Jean-Pierre Giasson of Montreal captures it succinctly when he says that a business plan is a way to answer three simple questions:

1. Who are we and where are we?
2. Where do we want to go?
3. How do we get there?

If the questions are simple, finding the answers is another matter. It is an arduous task, one which is often avoided because of the time and effort it takes.

Melodie Zarzeczny, a Toronto-based Osborne Principal, says "it seems to me that the only thing that forces people to do a business plan is a need for financing. Most companies aren't disciplined enough to do a regular business plan but the need for financing forces them into that kind of planning."

Zarzeczny says that part of the exercise of putting together a business plan "is looking at the environment. What does the external environment look like and what does that mean for your business? Does it provide opportunities or does it throw up more challenges? The answer to those questions may lead you to change directions or to create new strategies to address the threats or opportunities. The process of developing a business plan allows you to look at issues that might otherwise go unnoticed."

Uses of business plans vary

A need for additional financing is what usually spurs the development of a business plan. John Annett, an Osborne Principal in Toronto, says companies can no longer go to the investment community without a

business plan. "The investment community has become much more sophisticated in what they are looking for in a business plan. They're much more concerned about the thought process that's gone into building a business plan; they're much more concerned about risk analysis than they ever used to be. Due diligence these days is pretty extreme."

Annett sees other uses for a business plan "One of the more important uses is for communication between management and a Board of

Directors. This is a governance issue for any Board with outside directors. The Board has to ensure there is a business or strategic plan in place and the board should be involved, not in the process of implementing the plan but in contributing to it. There should be an iterative process between management and the board when the plan is presented."

A further use, Annett says, "is as a very important communication tool between management and employees.

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From the President, Donald O. Wood

Creating a good business plan is hard work but it is work that is essential and pays off for those who take the time to get it right.

Getting it right means being brutally honest in your analysis, which can be a major challenge to someone who has already poured blood, sweat and tears into creating a new product or designing a new service. But the point and value of a business plan goes beyond it just being a document to capture investors; it is a road map, it is a marketing tool, it is the basis for resource allocation, it fully and accurately describes exactly what the business is about and it defines both the makeup of the management team and the marketing plan.

That's a lot for one document to provide but a well-done business plan is up to the task.

This month a number of Osborne Principals share their knowledge of this important business tool and outline a case study in which a business plan played a pivotal role. Business plans start with the owner/manager of a company, who is in the best position to provide a lot of the information and research that is needed. Because of the intense scrutiny business plans receive these days from bankers and potential investors, The Osborne Group is increasingly being asked to provide professional help and guidance in the process. Our Principals provide a company or not-for-profit organization with an unbiased, experienced facilitator to help guide the organization through the process. Our perspective helps ensure the plan is grounded in reality and accuracy.

We hope this issue will encourage you to update your business plan or to go back and have another run at it if previous attempts ran out of steam before the plan was completed. ■

Case study

A business plan in action

In 2004, the President & CEO of a major performing arts organization, following the departure of its CFO and administration manager, sought an experienced business professional to solve some pressing and urgent issues. The President was delighted to be able to engage Richard Taylor, an Osborne Principal in Toronto.

While successfully managing the specifically identified concerns, Taylor recognized that if the Osborne-Group was to bring meaningful value to the client, he would have to gain a deep understanding of its operations and business model. He achieved this by scrutinizing its revenues streams and the factors that influenced those streams.

Taylor also analyzed the organization's cost drivers. What he found was that "the organization was faced with recurring boom/bust financial cycles, in which good years could not sustain bad years and bad years were occurring with depressing regularity. Financial and operating problems were compounded because of the long planning horizons. Parts of the organization were booking events, committing the organization to major expenditures, and setting selling prices long before the financial side had even considered whether there would be money available to pay for these programs."

Taylor used these insights to develop a business model. "When I finished looking at everything, I could see

there was a major structural problem. In my view, they were going to lose roughly one to two million dollars a year - every year - if they continued as they were going and would be on the verge of bankruptcy perpetually. Someone might bail them out and they'd survive for a couple of years but then they'd teeter on the brink of bankruptcy again and the cycle would repeat endlessly. Because of this cycle, several of the organization's key stakeholders had become disillusioned and distrustful."

These were not surprising revelations, as senior management intuitively understood the dilemma facing their organization. What Taylor achieved was the drafting of a document that coherently and logically demonstrated the situation that people within and external to the organization could understand and accept. Taylor and the senior management team developed a business plan to address the stark reality.

"Our first task was analyzing the three main revenue sources: ticket sales; grants; and donations. We realized that significantly increasing ticket sales had limited potential because volume was restricted by the size of the concert hall, and competitive pressures held prices rises in check. We also recognized that we had minimal influence on the size of government grants. So the avenue of least resistance was donations."

After further study, the organization undertook a major capital campaign to raise monies to build the endowment funds to the size where they could generate sufficient revenues each year to cover the operating deficit and financially sustain the organization. It also meant convincing a number of

crucial, but highly skeptical, key players to fully engage in the capital program, including Board members, trustees of endowment funds, granting agencies, and the organization's bankers.

Taylor says his real contribution "was working with the President and the financial director to craft a business plan that was transparent, comprehensive, and believable. A huge advantage to many clients is that as independent experts, Osborne Principals can lend authority, reliability and credibility to the organization's business plan through our direct involvement in their development. The proof in this case was that the Board and the other key players fully endorsed the business plan."

On the strength of the business plan the President was able to hire a highly regarded fundraiser and build a development team to secure the monies called for in the plan, "The fund raising team is using the business plan to help convince major philanthropists to donate generously to the capital campaign."

Two years later, the organization is on track and working to a rigorous budget based on realistic expectations of income and expenses. Indications are the endowment campaign will grow to a level where it can throw off funds each year sufficient to fund the operational shortfall. Says Taylor, "all of this was possible because we jointly established a comprehensive business plan. The analysis behind the plan told us where we were, where we needed to go and how we could get there. It was extremely hard work and the answers weren't always easy to find but patience and sticking to it is paying off handsomely for the organization." ■

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A company can summarize the basic components of the plan and have a town hall meeting to talk about where the company is and where we want

to go in the future. A lot of companies can't share specific financial data but there's lots of opportunity to talk about the overall plan and where the company is heading." ■

Business Plans: what's included?

How do you design a map for the future?

In the early stages of the business plan process, a company defines clearly the vision, mission and set of values that guides its operations. These are the three foundational rocks on which it will develop a strategic plan that will get it to where it wants to be in three or five years.

Mapping the future involves a number of steps. John Annett says there are two key issues in future mapping "and a lot of companies don't spend time to fully analyze them. The first major issue is identifying the competitive forces which you face today and what they are likely to look like in the future. The second key is defining your competition. You need to know enough about them that you can make some guesses about what they're going to do in the future."

There are whole schools that deal with market intelligence, competitive intelligence and how to get at this kind of information. The internet had made it easier to access information today but Annett says it's still "a question of slogging through each one of your competitors and each one of the competitive forces you have identified and analyzing where they are. For example, if you have a directly competitive product, you need to determine the manufacturer, how big they are compared to you, what their direction in market share is – is it going up or going down? What is their strategy in the marketplace today (can you see or identify any trend)? What kind of financial capability do they have (can they do whatever they want because they have lots of money or are they constrained)? There's any number of factors that you really want to fully understand with each one of your competitors."

Annett refers to Michael Porter, a renowned professor at Harvard who is considered the father of competitive analysis and business planning. He was among the first to

focus on looking at the external environment and understanding its importance.

"Porter identifies five forces at play in the external environment. He suggests companies look at rivalry among competitors, substitute products, the potential entry of new competitors, the bargaining power of suppliers and the bargaining power of buyers."

As part of the analysis, once you understand where you are and what the future might look like, Porter suggests you look at where you want to be and then determine how you position yourself versus your competitors. That means you have to look at what resources you have. What kind of skill sets and know-how do you have in the company? What's your customer base? What's your brand? Then you look at how you can use these resources effectively to change or improve your position.

Porter suggests companies need to decide where on a continuum they want to be - do they want to be the cost leader on one extreme or do they want to differentiate themselves from their competitors? Companies may settle on some combination of these two ends but the key is for the company to be very clear about its direction.

Annett adds "there's a lot of work involved to get to the point where you really understand what the future environment is going to look like from a competitive aspect but if you don't do it, you're kidding yourself. Very few businesses do this well – too often it's done superficially. The cost of not doing it means that at the best you've lost opportunity and probably lost some business; at the worst, the cost could be the loss of the company itself. ■"

SWOT analysis helps identify the gaps the business plan can address

SWOT is a business acronym that stands for Strengths, Weaknesses, Opportunities and Threats. In doing a SWOT analysis, John Annett says in his experience many companies look internally during a SWOT process but very few take the time to look externally.

"Companies may believe, for example, that they've got a strength because they've got a good advertising department. What they're not considering is what their competitor's advertising department is like. Maybe it's better and of course, if so, then the advertising department really isn't a strength."

Melodie Zarzeczny says SWOT helps focus on what the external environment looks like and what it means for the business. Does it provide opportunities or does it throw up more challenges?

"Obviously the analysis of the competitive environment is critical (see article directly above on this page) but it's not

the only environment. Another one is the political arena – does it have any bearing on your business and, if so, what is the impact?

"The economic environment is a critical piece of the picture," says Zarzeczny. "Interest rates have a significant impact, as does inflation or the changing value of the Canadian dollar. So a company must assess what the future looks like in terms of the economic environment."

Annett says that if a company does a SWOT analysis properly, "what you've done is identify some gaps, which are the things you want to deal with in a business plan. You want to understand where the gaps are – between where you are, what the future's going to bring and where you want to be in the future. Honesty about what you have and what you need is essential. Honesty lets you deal with the gaps because you're dealing with reality." ■

Final steps essential to make business plan work

Jean-Pierre Giasson, an Osborne Principal in Montreal, has seen companies lose momentum because the process of building their business plan stopped at the decision-making stage.

“If the business plan stops at saying we should do this or we should do that and the company doesn’t determine how to execute the plan, then the corporate strategy will not be translated into functional plans. If that’s the case, the business plan becomes nothing more than a wish list.

Giasson says the only way to translate the corporate strategies into functional plans is to involve project managers in the strategy planning process. Some companies now are organized around project management as a way of dealing with the gap in the planning process.

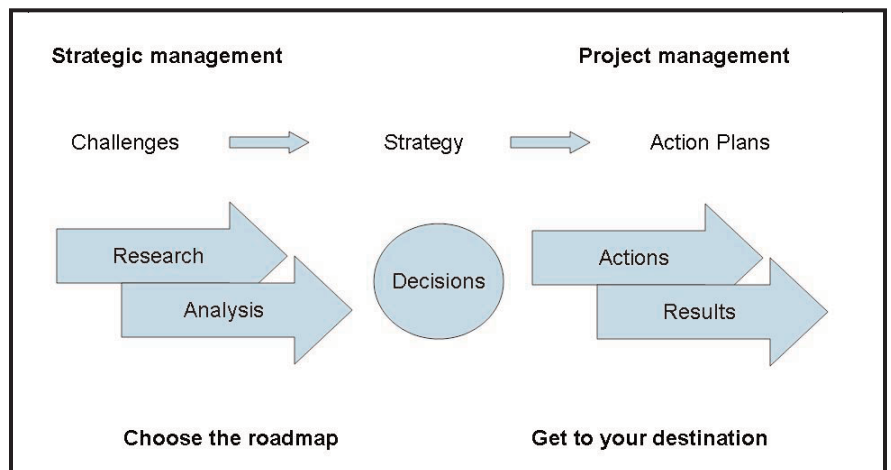
He adds that “most of the time when people are disappointed in strategic planning it is because there is a link missing between the project or operational managers and upper level managers.”

To close the gap, Giasson uses a process he developed, which he calls a RADAR model. “RADAR stands for research, analysis, decision, action and

result. Too often the business plan ends at the decision point, in the middle of the model (see diagram below). If you take decisions but you don’t take action, you won’t get results or success.

Giasson says identifying actions that will bring the goals and objectives to fruition needs to occur at each step of the planning process. Focusing on the execution of the business plan determines resource allocation and what the performance indicators will be. Regardless of the model used, decisions without action result in no progress. ■

RADAR model for business planning and project management



Welcome new Principals

We are pleased to welcome these new Principals to The Osborne Group:

Montreal:

Ginette Bourbonnais - Executive Management
Suzanne Paquet - Executive Advisor
Jean-Pierre Giasson - Executive Management
Léo Théberge - Executive Management

Toronto:

Ken Goodwin - Financial Management

Vancouver:

Trish Watson - Information Technology

Business plan resources in print and online

1. Competitive Strategy: Techniques for Analyzing Industries and Competitors by Michael Porter. Free Press (October 1, 1980) ISBN: 0029253608
2. Competitive Advantage: Creating and Sustaining Superior Performance by Michael Porter. Free Press; 1st Free P edition (June 1, 1998) ISBN: 0684841460

http://dor.hbs.edu/fi_redirect.jhtml?facInfo=bio&facEId=mporter (information on Michael Porter)

<http://office.microsoft.com/en-us/templates/CT061993371033.aspx>

<http://www.jaxworks.com/thebalancedscorecardconcept.htm> ■

For further lists of resources, check our website at www.osborne-group.com



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