BUSINESS PLAN MANAGEMENT

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LEARNING OUTCOMES

Learning Outcome 1

Prepare a business plan, analysing all perspective's affecting the business.

Assessment Criteria

1.1 Develop a mission statement, business objectives and product, marketing and operational strategies, namely to:

- define objectives of business in terms of financial performance;
- specify products to be marketed to achieve objectives;
- determine the strategies for the marketing of products;
- identify operational considerations.

1.2 Discuss external and internal conditions, constraints and environments affecting planned outcomes, taking into account:

- industry/competitive;
- economic;
- market;
- regulatory/legal/ethical;
- resources;
- financial.

1.3 Delineate organisational structure and document the consultation processes used to compile plan.

1.4 Set out the action elements of the plan, specifying who, where and when action will be taken.

1.5 State all plan outcomes clearly in quantifiable and qualitative terms as appropriate.

Content

1.1 BUSINESS PLANNING FRAMEWORK

- **Revision of the functions of management**

  - What are the traditional functions of management? During discussion list the following management functions on the board…..planning (P), organising (O), staffing (S), leading (L) and control.

  - **Class Exercise 1** (say 20 minutes)

    - Using Handout 1.1 "Selected Management Activities" ask learner's to place an appropriate letter alongside each activity.

    - Using Handout 1.2 "Functional Classification of Selected Issues" ask learner's to place an appropriate letter alongside each issue.

- **Revision of the nature and purpose of business plans**

  - Discuss the following propositions

    - A business plan is a statement of ends (outcomes), and means (inputs) that results from a managed planning process.

    - Whilst emphasis is on producing a plan, the process itself is of great value for helping management to cope with a changing environment and for shaping management effectiveness.

    - Planning, problem-solving and decision-making are similar processes

    - In a competitive environment the challenge is to have a dynamic planning process and team capability for planning that is more effective than key competitors

    - Planning helps develop understanding, unity, commitment and motivation

    - There has been a shift in focus in business planning from activity (inputs and efficiency) to results (outputs/outcomes and effectiveness)

    - The challenge is to build on strengths, overcome weaknesses, find opportunities and minimise threats and risks.

  - Discuss the relationship between planning, problem-solving and decision-making.

    - **Class Exercise 2** (say 15 minutes)

- Distribute Handout 1.3 “10 Steps for Management”
- Discuss the following six questions (or phases for planning) that are fundamental to most business planning systems
- Where are we now? (Phase 1)
- Where do we want to go? (Phase 2)
- How and when are we going to get there? (ie ways we might go, can go and will go) (Phase 3)
- Who will be responsible? (Phase 4)
- What are the costs and benefits and resource requirements? (Phase 5)
- How will we measure progress? (Phase 6)

- **The business planning model**

Distribute Handout 1.4a “The Business Planning Model”.

This model has been designed to suit a wide range of organisations and situations. It will be useful for start-up situations and for mature organisations. It will suit small, medium and large businesses, government organisations and authorities and also town and regional tourism development agencies.

Some parts of the model were presented in part in “Business Plan Administration”. The remaining parts will be dealt with in full in this module.

“Business Plan Administration”. focused on a short introduction to business planning and on report preparation. This module provides a full study of the business planning process, emphasising the importance and formulation of strategy and the application of the process to organisations.

Step in the planning process:

Executive Summary

Business Profile (Who are we?)

- Business Description
- Background
- Stakeholders

Situation Analysis (Where are we now?)

- Financial Analysis
- Planning Analysis
- Macro Analysis
- Industry Analysis
- Organisation Analysis
- SWOT Analysis

Vision (Where do we want to go?)

- Mission
- Objectives
- Culture
- Policies

Direction (How and when are we going to get there?)

- Gap Closing Strategies
- Market Development Strategy
- Product Development Strategy
- Diversification Strategy
- Programs and schedules
- Priorities

Implementation (Who will be responsible?)

- Organisation
- Delegation
- Action Plan

Financial Plan (How much will it cost?)

- Resources
- Budgets

Monitoring (How are we going? Are we in control?)

- Management Information
- Performance Review
- Plan Modification

1.2 EXECUTIVE SUMMARY

- Is a synopsis of the Business Plan
- Should be brief (say no more than three to five pages of narrative plus selected attachments)
- Designed for reading by busy top-management, directors and financiers etc
- Stick to the headlines and main themes and avoid detail
- **Class Exercise 3** (say 15 minutes). Distribute and discuss the sample executive summary in Handout 1.4b.

1.3 BUSINESS PROFILE (Who are we?)

- **Business Description**

  This section can be kept brief because it will be expanded later on in the section dealing with "mission"

  - What business are we in now? (do not attempt to define what business we should be in at this stage)
  - Define what the business is now in product and marketing terms

- **Background**
  - Origins
  - Growth phases
  - Recent history

- **Stakeholders**

  The object here is to identify the range of individuals and organisations which have a vested interest in the organisation. An analysis of their expectations follows in a later section "Organisation Analysis". Here we only note items of special interest eg

  - The family owns 60% of the shares and has done so since…

- The government is a 40% shareholder
- The business is the largest employer in the township of……….
- The local community have a vested interest because….

1.4 SITUATION ANALYSIS (Where are we now?)

Learners to be provided with

- Assignment 1 "Enrico's Investments Case Study". This assignment must be completed before work commences on Learning Outcome 2 since the case study will be used as major resource material for later sections.
- Handout 1.4c "Situation Analysis Checklist".
- **Financial Analysis**
    - Assess profitability
    - Assess liquidity
    - Assess security
    - Assess the existing budgets
    - Scan major funding proposals
    - Assess the quality and reliability of supporting information for key budget figures and funding proposals (including existing business and marketing plans)
    - Assess the financial management skills of key executives
- **Planning Analysis**
    - Is there an existing business plan?
    - Is there an existing marketing plan?
    - What other plans are there?
    - Is there a formal planning system?
    - Is the formal planning system working well?
    - Does it need to be enhanced or re-designed?
    - If so, consider the following steps

- Stage 1 - Research. Apply the problem-solving process. What are the issues, trace the causes, define the needs, define the problem

- Stage 2 - Design Brief. Translate the needs and problems into objectives for the new or revised planning system.

- Stage 3 - System Design. Define and evaluate the costs and benefits of each alternative planning approach, select best alternative and define implementation requirements

- Stage 4 - Approval. Involve all levels of management. Seek firm commitment to the approach, content, digestibility and time-table for the planning process. If top management is not fully committed and willing to commit resources to the planning process, do not start the process.

- Stage 5 - Implementation

- Consider using outside help to facilitate some aspects of the design and implementation phases (eg analyses, feasibility, workshops etc)

- The chief executive has a pivotal role as does the whole top management team. The CEO is the chief architect for the firms future and is responsible (among other things) for

  - Setting and maintaining a positive climate for effective planning

  - Organising the planning process and responsibilities

  - Being involved in facilitating group discussion

  - Nursing the change process, particularly when developing a service culture at all levels

- Approaches will vary by situation and management style but a good "ice-breaker" to start top managers thinking strategically and seeing the need for planning is contained in Handout 1.4d "Top Management Ice-breakers". The CEO would circulate this asking for initial well thought out concepts to be presented at a top management meeting in one weeks time. This can also be set as an assignment asking learners to write a management report on any organisation they are familiar with or on the basis of an interview with the CEO of any tourist firm.

- Predisposition of the Chief Executive
    - The chief strategist and provides the drive, tenacity and pressure;
    - Personal attitudes, beliefs and leadership styles will influence strategy, eg.
        - An “aggressive” CEO will value strength in unity, dividing and conquering, striking while the iron is hot, massing a concentrated offensive and never yielding to an inferior force.
        - A “mild” CEO will value time as a great healer, sew seeds on fertile ground, avoid action unless success is certain, avoid decisive engagements when weak, will start small, will believe things will get worse before they get better.
    - Personal strategies are also important and may relate to personal power, timing, relationships and careers, life aspirations, habits, behavioural and decision-making ways, etc.
- Who plans? General Management
    - Ensures uniform understanding of objectives, policies, plans and methods;
        - Co-ordination towards common goal;
        - The competitive process is really between management teams in the market place (rather than products) as each team tries to out-point the others in reading the market and external forces;
        - The need to sift opportunities to select the “right” risks;
        - The need to conform to investment and lending expectations and to enhance attractiveness as a funds consumer (NOTE: funding is a marketing process);
        - Reveals strengths, weaknesses, trends and company needs in absolute terms and relative to the industry and competition;
        - Profit planning;

        - Save energy, time and money by being effective (c/f efficient);

        - Control via "before the facts" anticipation rather than "after the facts" remedial control;

    - Who plans? Marketing.

        - Planned approach for specific share of existing markets, market growth and new markets;

        - Planned profit maintenance and improvement for existing products and to screen out product possibilities and select new products.

    - Who plans? Financial.

        - To meet financial needs for growth;

        - To meet lender expectations re planning.

    - Who plans? Production.

        - For facilities, human resources and raw material sourcing.

    - Who plans? Human Resources.

        - For selection, training and development, culture assessment, etc.

- **Macro Analysis**

  This involves a wide range of enquiry, detection of trends and key issues and statements of assumptions for planning purposes

  - **Economy -** what major economic developments and trends might impact the organisation and how has the organisation responded? Consider:-

    - GNP, business cycles, money supply

    - Income distribution, disposable income

    - Consumption trends

    - Inflation of costs and prices

    - International economic trends (eg regionalisation) and events
    - General supply and demand trends
    - Locational factors
  - **Society -** what major demographic and cultural developments and trends pose opportunities or threats and what actions has the organisation taken in response to them?. Consider:-
    - Population trends
    - Unemployment
    - Health and welfare
    - Lifestyles, values
    - Pressure groups (environmentalists, consumer protectionists, womanise liberation, peace movements, local pressure groups)
- **Environment -** what is the outlook for cost, availability and the need for protection in the physical environment that we operate in or impact on and how have we responded? Consider:-
  - Natural resources and energy
  - Climatic, geographic factors
  - Planning constraints
  - Development impact
- **Technology -** what major changes are occurring in relevant product, service and process technology and how have we responded? Consider:-
  - Computing
  - Communications
  - Materials
  - Processes
  - Product design

- Substitute products and services

- **Politics and law -** what new legislation could affect this organisation and have we been re-active or pro-active in response? Consider:-

    - Price control
    - Industry ownership and foreign investment controls
    - Design rules and regulations
    - Pollution, hygiene and safety standards
    - Consumer and environment protection
    - Industry subsidies, protection, tariffs and import controls
    - Investment incentives (depreciation allowances)
    - Direct and indirect taxation
    - Labour market regulation, conciliation and arbitration

- **Unions**

    - Demand for improved wages and working conditions
    - Strike actions

- **Industry Analysis**

  This also involves a wide range of enquiry, detection of trends and key issues and statements of assumptions for planning purposes. It looks at industry demand and supply conditions.

  An example of a statement of assumption is:- "the market for 3 star accommodation is expected to decrease by 10% over the next 12 months for the following reasons…." (note, these hypotheses are linked to objectives).

    - **Demand**

        - What is happening to market size, growth and geographic distribution? Gather statistics and prepare graphs for the total market
        - Is the market expanding or contracting?
        - Suitable analysis and explanations of trends, peaks and valleys in the graph in terms of

underlying determinants of demand (list and weight these)

    - What vulnerability is there to the business cycle and other related determinants of demand?

    - What are the major segments? Segment the market data by location, product type etc and analyse same

    - Which segments offer us the best opportunities? What segments are we in and what should we be in?

    - Analysis of long-term industry sales to reveal the shape of the underlying product life cycle (market saturation or penetration curves)

    - Determination of which stage of the product life cycle we are at

    - Analysis of product life cycles for comparable products eg forecasters attempting to forecast demand for colour TV when it was first introduced looked at the history for black and white TV as a starting point for their forecasting assumptions

    - In looking at the underlying determinants (forces) of demand try to establish links with consumer needs and behaviour research and also with product innovation

    - Market evaluation for substitute products

    - Study comparable markets overseas

- **Supply**

    - Try to overlay supply over the demand curve to reveal unused capacity (vacancy) and include a line on the graph for capacity utilisation (eg room occupancy)

    - Assess availability and risks in supply of raw materials, labour and capital resources

    - List and rank suppliers (competitors)

- Assess level of concentration (eg fragmentation and prospects for industry rationalisation)

- Locational analysis (proximity to markets and raw materials etc)

- Exit barriers

- Entry barriers (economies of scale, product differentiation, capital requirements, distribution access, government policy, probable retaliation)

- Bargaining power of suppliers etc

- Study comparable markets overseas

- **Competitive analysis**

  - Graph market share for own organisation and for key competitors

  - Try to analyse these market share movements in terms of key historical events in marketing mix strategy

  - What competitive trends are developing in numbers of competitors, technology, promotion, pricing etc?

  - Financial analysis of key competitors

  - Management capability assessment for key competitors

  - Extent of differentiation between competitors

  - Product design comparison (features and benefits)

  - Study comparable markets overseas

- **Key factors for success**

  On the basis of the industry analysis and particularly of its best performers (here and overseas) list, weight and describe the factors that are "musts" in terms of knowledge, skills and actions for optimum performance.

- **Organisation Analysis**
  - **Stakeholder Analysis**

    The object here is to help clarify the expectations of those who are dependent on or have a vested interest in the future role and success of the organisation. It includes

    - An analysis of owners expectations for dividends and capital gains (satisfaction with past performance and minimum expectations for the future….so much by when or else!)
    - Sharemarket assessment and expectations
    - Top management aspirations
    - Employee concerns for future employment prospects
    - Local government concerns for economic development
    - General public
  - **Management Audit**

    The aim of this section is to evaluate management capability in the main functional performance areas with a view to determining strengths which can be protected, further developed and capitalised upon and weaknesses which can be overcome.

    This means evaluating people and processes in the following areas:-

    - **Marketing Management**

      A well-researched and comprehensive marketing audit should be periodically completed. For business planning purposes, answers to the following questions may be relevant to an overall assessment of management resources and capability. Note that any one of these questions might warrant a separate management report rather than a cursory appraisal.

      - **Markets**
        - What conclusions can be drawn from industry demand and supply analysis as to relevant markets, segmentation, market share trends and key marketing mix strategies influencing market growth and competitive positioning?

- What forecasts (inc. assumptions)should be made?
- Are there any economies of scale in marketing?
- What is our existing market share in total and by segment and how firmly is it being held?
- Is this share diversified or concentrated as to number of customers?
- How adequate is our existing market research?

- **Consumers**
  - How do our customers and prospects rate the organisation and its competitors, particularly on reputation, image, service quality, helpfulness and price?
  - Do we understand consumer needs and the buying decision-making process?
  - How adequate is our existing consumer research?
  - How strong is consumer preference, customer awareness and loyalty?
- **Competitors**
  - Who are our major competitors and why?
  - What are their market share trends, objectives, strategies, strengths and weaknesses
  - What trends can be foreseen in future competition (including substitutes)
- **Marketing**
  - Are our marketing staff sufficiently knowledgable and experienced?
  - Are sufficient resources allocated to the marketing task?

- Can we determine profitability by product line, area, segment and in response to changes in the marketing mix?

- Are the marketing resources being allocated optimally across the marketing mix?

- Has any sensitivity analysis been done for switching resources from one element of the mix to another?

- Is there a marketing plan?

- Do we have an effective marketing planning approach, marketing information system and control procedures?

- **Products and services**

  - Do we have any locational advantages and disadvantages?

  - What is our relative product strength compared to competitors and substitute products?

  - How well does our product relate to consumer needs?

  - What opportunities are there for innovation?

  - What strengths and weaknesses have been dominant in the organisation's history (eg design features, quality, reliability, patent protection, branding etc)?

  - How do existing customers, potential customers and distributors regard the organisation's products and services?

  - Can each product line stand on its own feet without support from other product lines?

- **Pricing**

    - Have prices and margins changed over the product life cycle?

    - Are there any anomalies in our pricing compared to the competition and how do we justify price advantages and disadvantages?

    - Do we use price promotion well?

- **Promotion**

    - Are our communication objectives clear?

    - Do they match our identity and image?

    - Is our sales force effective?

    - What steps have we taken to communicate with all our key publics?

    - Is it of the right size and well organised?

    - Are advertising, publicity and public relations effective?

- **Distribution**

    - What are the main distribution channels being used in the industry and which ones do we use (and don't use) and why?

    - What are the efficiency levels and growth potentials for these channels in industry terms and for us?

    - Are we developing support and Co-operation for and with our distributors and vice versa?

    - Have role and responsibility statements been determined for our distributors, wholesalers and agents?

    - Are we getting value for money?

    - Are there other alternatives eg should we absorb some of these activities ourselves (transfer them to "promotion")

- **Production & Development**

    - How capable are we at product research and development?

    - How competitive, effective and efficient are our production facilities, operations and quality control procedures?

    - Are there any economies of scale?

    - Is our level of non-productive time reasonable and competitive?

    - Can we develop and produce new product on time and in accordance with design brief criteria?

    - Is our buying expertise and access competitive?

    - Are there any potential buying economies of scale?

- **Financial Management**

    - What conclusions were drawn from the financial analysis section?

    - What is the quality of our financial management?

    - Is there a sound planning and budgeting programme for improving return on investment and managing short and long term funds?

    - Are returns on investment calculated by product line or for any other segments of the business?

    - In our long-term financial plans and capital expenditure proposals, does management understand the cost of capital in absolute terms and relative to that of our key competitors?

    - Do we understand our break-even point and is this too high to sustain the business through recessions or other downturns?

- **Human Resource management**

    - Should this be more centralised or decentralised?

    - Are adequate procedures in place for selection, training and development?

        - Are performance appraisal systems producing results?

    - **Top Management**

        - Have top management tasks been properly defined relative to the role of the Board and lower management?

        - Are top management task and people skills effective? Is the team functioning properly?

        - Do they concentrate on business planning process/strategy issues or do they get immersed n detail?

        - Is the organisational climate conducive to top performance?

        - Has the overall mission (role or purpose) been clearly stated?

        - Is there a hierarchy of roles and if so, how well do these integrate across the organisation?

        - Is the definition wide enough to encompass opportunities and narrow enough to match resource availability and capability?

        - Are the objectives clearly stated?

        - What key actions or priorities can be classified as strategies?

        - Is the organisation structure capable of flexing to meet market changes and competitive pressures?

- **SWOT Analysis**

    - **General comments**

        - SWOT means strengths, weaknesses, opportunities and strengths.

        - The formulation of strategy requires matching an organisation's strengths and weaknesses (particularly its distinctive competence) to the opportunities and threats (risks) in its environment.

- SWOT analysis is often a good way to start a planning process, particularly as it affords an opportunity for everyone to be involved

- Can be an initial brainstorming exercise and/or a result of detailed analysis

- Opportunities and strengths are to be capitalised on and threats and weaknesses met and accommodated

- Today's strength may become tomorrows weakness if the environment changes

- The emphasis is on finding the right problem or opportunity not on a mechanistic approach at problem-solving everything

- SWOT analysis can be applied to part of an organisation (eg product, product group, department, geographic area, function, business unit), the organisation as a whole, a competitor, an industry and in the case of tourism to a destination, precinct, town, region or country.

- Some organisations may have already identified the key factors for success for doing well in an industry and the key result areas for their business. These can also be used as criteria for a more focussed SWOT analysis process (eg customer satisfaction, productivity, innovation etc)

- There are two ways to do a SWOT analysis

    - The SWOT approach - where the analysis is done under the SWOT headings

    - The integrated approach - where the analysis is carried out in a check-list fashion using the Situation Analysis headings and then concluding for each heading whether there is an opportunity, threat, strength or weakness

- The conclusions of SWOT analysis will be used to help shape strategy and particularly in a later analytical phase known as Portfolio Analysis which will be dealt with under the heading of "Direction". Some parts of portfolio analysis might even be attempted in the Situation Analysis phase, at least for existing businesses and/or product groups.

- **Opportunities and threats**

    - Whichever approach we should develop a final summary statement of opportunities and threats (derived from Macro and Industry Analyses)

- **Strengths and weaknesses**

  - This is an absolute and competitive assessment of strengths and weaknesses (derived from the Financial, Planning and Organisation Analysis

  - Strengths and weaknesses are sometimes referred to as competitive advantages and disadvantages. In this sense they are relative strengths and weaknesses.

  - Ask what are we doing better or worse than our competitors?

  - Follow the process of asking what do we need to do to do well, have we got those things and are we doing them better than the competition?

  - Often a rating system helps where points are allocated for the organisation and its key competitors. If key factors are identified, the rating system can be weighted and an overall score established. The key issue here is establishing the standard for a perfect score. See Handout 1.4g "Strategic Advantage Rating Profile".

  - **Strengths**

    - Areas of the business generating higher output than input and therefore providing value for money (return on investment)

    - May be strong in absolute terms (compared to consumer needs) or in relative terms (compared to competitors)

    - A competitive advantage

    - Defences against attack

    - Springboards for offensive action

    - Power-bases for increased bargaining power in buying and selling

    - For example, strong distribution system and/or superior design skills may open up opportunities for new products

  - **Weaknesses**

    - Areas of the business consuming resources where inputs are higher than outputs and therefore not providing value for money (return on investment)

- Areas where resources may be efficient but not effective
- A competitive disadvantage
- Areas of vulnerability to attack
- Includes potential weaknesses eg imminent retirement of CEO but no succession plan; concentration of sales in one product where the market is declining

- **Integrated Analysis Approach**
    - From the demographic analysis

      Opportunities

        - Longer life expectancies might mean more new product opportunities in the senior citizen segment

      Threats

        - A lower birth or household formation rate will eventually lead to lower new home building and appliance demand

    - From the supply and competitive analysis

      Threats

        - There is a risk of new firms entering the industry or of existing firms combining and rationalising

    - From the demand analysis

      Threats

        - Our markets were declining or that we are vulnerable to substitute products

    - In the financial analysis we may have concluded that

      Strengths

        - Strong borrowing capacity
        - Strong credit management

      Weaknesses

        - Poor liquidity and profitability

    - Poor planning and budgeting processes

- In the organisational analysis we might have concluded that

  Strengths

    - Strong capability for serving the senior citizens market

    - Locational advantages provide an opportunity to build image

    - Strong distribution channels

  Weaknesses

    - Poor networking arrangements which leave us vulnerable to industry rationalisation

    - No CEO succession plan

- **SWOT approach example**

  Strengths

    - Strong capability for servicing the seniors market (80% rating compared to Competitor A 65%)

    - Locational advantages provide an opportunity to build image

  Weaknesses

    - Poor networking arrangements which leave us vulnerable to industry rationalisation

    - No CEO succession plan

  Opportunities

    - Aging population offers opportunity to build on strength in products for senior citizens

  Threats

    - Declining household formation threatens appliance demand

- **Class Exercise 4** (say 20 minutes)
    - Handout 1.4e "Sample Integrated SWOT Analysis for an organisation"
    - Handout 1.4f "Strategic Advantage Rating Profile"

- Tourist example to illustrate linking strengths and weaknesses with opportunities and threats
    - Rationale for concentrating on visitation to Adelaide
        - Strengths - our town is easily accessible to Adelaide, we have a pleasant farming environment, good beaches and we are price competitive
        - Opportunities - visitation to Adelaide is growing strongly, government promotional support is available, investment in major tourist developments is occurring in the region, growing interest in farm-based holidays and adventure
    - We will focus on the short-trip market
        - Strengths - accessibility, strong product line for places of interest (scenic features, museums, old mines)
        - Threats - cost of petrol is increasing, consumer preference to divide total holiday time into more short trips
    - We need a major magnet in the town
        - Strengths - existing town character and community retail support, strong product line of support businesses
        - Threats - potential new investment in an adjoining region will shift the centre of gravity away from our region
        - Opportunities - strong short trip support for unique theme developments

- **Class Exercise 5** (say 20 minutes). Distribute and discuss Handout 1.4g "Sample SWOT Analysis for a Country Town".

- Suggest learners practice SWOT Analysis for Assignment 1 at home.

1.5 VISION (Where do we want to go?)

- **Mission**

  - A mission statement defines the organisation's role and its basic reason for existence and helps

    - Establish vision, direction and scope

    - Provide an image of the desired future character of the business in the future

  - It includes a business definition in product and marketing terms which defines the scope of operations. An important aspect to consider is if the business definition is too wide in scope (beyond our resource capability) or too narrow (and we might miss opportunities)?

  - Who are our customers and why do they buy ? What benefits do they derive from our products and services?

    A focus on consumer needs is fundamental for survival and growth. Each market has a minimal level of acceptance for the total package (marketing mix) below which the organisation will slide into oblivion and above which the organisation will grow in strength, size and profits.

  - What products, services and technologies are we involved with

  - How are we unique? What sets us apart from the competition?

  - Some tourist organisations are part of a cluster eg in one city there might be a tourist development agency, a convention marketing agency, a convention centre, a city council interested in tourism etc. In these cases it will be helpful to explore the roles of each to ensure the role of your organisation fits and there is no duplication etc

  - **Class Exercise 6** (say 20 minutes). Distribute and discuss Handout 1.5a "Role/identity screening criteria".

- **Objectives**

- A temporary estimate of a very desirable future result

- Linked to assumptions (eg assuming the market for 3 star accommodation decreases by 10% next year our objective for room occupancy is 75%)

- Quantitative objectives (by time and extent) include market share, industry ranking, sales growth, sales (quantity and value), new technology and product introduction, return on investment, liquidity, security etc. Sales can be broken down by products, industries, markets, countries, territories and types

- Qualitative objectives might include statements about environmental and social responsibility, continuity of effective management and image

- Objectives without resources are delusions

- Conceived and developed upwards and downwards

- Revise business definition and mission statement

- Consider the following key result areas when framing objectives

  - Customer Satisfaction :- a prime aim is to find customers and satisfy consumer needs and wants better than the competition. Research and analysis of marketing mix components will help define the key leverage factors in this area

  - Productivity:- ratio of output to input. eg sales dollars per salesperson, profit per key resource hour (key machine or key executive time), occupancy, direct standard labour hours produced versus paid. If a competitor can out-produce you it can usually out-price you

  - Innovation:- new and better including product design, facilities, computer applications, human resource management etc

  - Resources:- creation, conservation and use. eg inventories, debtors, equity, debt, buildings, land, patents, licensing, human resources

  - Management Development and Performance:- often the biggest bottleneck to improving performance

  - Employee Attitudes and Performance:- look at staff turnover, absenteeism, morale, time lost through stoppages and accidents, training budgets etc

  - Social Responsibility:-

- Quantified objectives in key result areas to be delegated to key responsibility areas

- Check each objective against the following **essential** criteria

    - Suitability:- does it relate to purpose and direction (relevance)? Does it fit with other objectives (consistency)? Can it be delegated?

    - Feasibility:- Is it theoretically possible? Test the underlying assumptions eg if the sales target requires greater than forecast industry growth ask "who are we going to take business from and how?"

    - Achievability:- Is it practical for those who will be responsible? Can they do it? Do they have the knowledge, skills and motivation even if we give them the required resources?

    - Acceptability:- Have the resource requirements been estimated? Are we willing to commit resources?

    - Value:- Is it worth the price (cost-effective)? Is it the best we can get for our money? If we transferred the resources what alternative objective(s) might better satisfy stakeholder expectations?

- Check each objective against the following **desirable** criteria

    - Measurability:- Has it been quantified? Is it possible to measure progress? Does it allow for a high level of self-control rather than imposed control?

    - Adaptability:- can the objective be flexed with changes in assumptions about the external environment?

    - Commitment:- Has it been agreed? Does it inspire commitment?

- **Culture**

    - Definition

        - "The way things are done around here"

        - The climate, personality or qualitative standards that characterise human behaviour in an organisation

        - The unique ways people unify behind a common purpose to try to deliver superior performance and pass on their skills to others

    - Importance

        - A strong culture is a resource to help develop and implement strategy
        - Helps develop commitment, dedication and loyalty
    - Development
        - Built from within by individual leaders
        - Not built overnight
        - Three main steps for a strong culture are commitment, competence and consistency
            - Commitment to the mission and objectives because it harmonises with individual and team aspirations
            - Competence in key areas is recognised, rewarded and developed in order to develop distinctive competence and competitive advantage
            - Consistency in decision-making to re-inforce commitment and competence

- **Policies**
    - Policies are statements born out of the mission statement and objectives to help keep the organisation on track by defining what actions are permissible and what are to be avoided
    - They may be broad in scope and enduring or prescriptive like "rules", for example
        - Customer satisfaction is to be maximised at all times
        - We never lend without security
        - We only employ qualified people
        - No new product will be developed without market research justification
        - All job descriptions will adhere to the MBO process

1.6 DIRECTION (How and when are we going to get there?)

- **GAP CLOSING STRATEGIES**
    - What are strategies?

- Strategies are major courses of action that give significant leverage to the achievement of objectives

- Strategies provide guidelines for the development of organisational design. In this sense it is a common rule that strategy precedes structure.

- The strategy process is sometimes described as looking

    - First at what we **might do**

    - Then at what we **can do**

    - Then at what we **must do**

    - And lastly at what we **will do**

- Strategies are often translated into key programs and projects and usually involve

    - Changing the thrust of the business

    - A high level of risk

    - Higher and longer term commitment of resources

    - Higher level of management co-ordination

- The value of the concept of strategy is that top management will focus appropriate time on the broad courses of action, the master-strokes, that will, because of their scope and leverage on objectives, will capture the imagination of the management team and clarify the whole business planning process. Otherwise proposed actions of strategic importance will get lost in the myriad of plans, tasks and issues. There has to be a sense of priority.

- Each proposal for improving performance should be screened as to its % impact on net profit and ROI and a priority list developed accordingly

- Successful strategies are not an automatic by-product of detailed business planning processes but result from managers who can out-think, out-plan and out-play their competitors, always thinking and acting about "the 3 C's", customers, competitors and company

    - Finding customers and meeting their needs

    - Developing competitive advantage

        - Building on existing strengths

    - To sharpen strategic thinking processes learners should complete a home exercise using an abbreviated business planning process that focuses on these 3 C's along the lines of Handout 1.5b "Strategic Issues Analysis Home Exercise".

- What does gap-closing mean?

    - A gap is the difference between the objectives desired for future performance and the level that is likely to be reached if the existing momentum of the business is sustained without a major change in direction or resource allocation

    - For example…. "Our objective is to achieve an ROI of 20% by the end of Year 3. On our present course we might achieve 10%. Even if we fine tune our plans and budgets we won't be able to close that 10% gap."

    - Gap-closing refers to the art of re-defining strategy to find new ways of doing business to reach desired objectives by emphasising strategic thinking. The greater the gap, the greater the challenge for strategic management.

    - In many Australian business situations the old ways of doing business are not working and in many cases survival is at stake. Hence the quest for new ways, new directions in business planning and re-structuring.

- Six alternative ways (growth strategies) to close the gap

    - Improve current momentum by fine-tuning existing products , markets and processes

    - Radical internal improvements eg re-structuring to achieve greater decentralisation, flatter organisational structures and greater commitment through contractual arrangements

    - Improve market penetration with existing products into existing segments

    - Develop new markets (ie entering new market segments)

    - Develop new products

    - Diversification

- The last four of these growth strategies are often described in table form. Such a table is called a "product/market matrix", a "growth matrix" or a "growth grid". Presentation of this grid can be a useful aid for stimulating discussion and providing a systematic framework for analysis because it forces management to consider all the possibilities and to get "outside the square" of traditional organisational thinking.

MARKET	**PRODUCT**	
	PRESENT	NEW
PRESENT	Market Penetration	New Product Development
NEW	New Market Development	Diversification

- New product and new market development could be in **related** or **unrelated** areas and so an extra row and column could be inserted into the matrix.
- **Class Exercise 7** (say 20 minutes)
  - Ask learners to construct a graph to portray the 6 strategies listed above as follows (noting that this approach is useful as an initial planning step and also for presentation when the business plan is completed).
    - ROI on the vertical axis and time on the horizontal axis
    - A line is drawn from an ROI point where we are now and to a point in the long term showing where we want to go
    - Separate lines to show our base momentum and overlays for each possible new strategy are then drawn to close the gap between our future ROI objective and the expected ROI if all we do is maintain our existing momentum
    - Note that the momentum line will reflect the product life cycle(s) that the business is involved in
  - Ask learners to consider the key criteria for evaluating gap-closing strategies. Their answers should pick up the following points:
    - Consistency with the external environment
    - Consistency with the internal environment (capability)

        - Availability of required resources
        - Risk
        - Timing

- **MARKET PENETRATION STRATEGIES**

  Involves new ways for existing products in existing segments. These strategies are less risky than new markets and new products and are attractive because they build on strength and experience.

  - Stimulate industry demand
    - Co-operative industry research and promotion, particularly in the initial stages of the product life cycle (market saturation or penetration curve)
    - Market leadership initiatives to demonstrate new ways to stimulate customer usage of the product (these can also help win market share)
      - Increase the unit size for purchase eg. increasing the size of the package for a product or a organising a package deal for a tourism product or incentives to increase length of stay
      - Increase market awareness and the frequency of purchase through price incentives, free coupons, off-season pricing, customer loyalty clubs and promotions
      - Reduce product life through planned obsolescence eg reduce product quality to encourage replacement purchase or in the case of tourism activities reduce continuous market offerings to less frequent events
      - Find new uses for the product eg
        - Eucalyptus oil use extended from massage to inhalation
        - Extending the use of a TV monitor for computer games
        - Extending passive museum displays of early farming implements into demonstrations at farm holiday locations and/or agricultural festivals
  - Win market share from competing products, destinations, towns and regions by improving the marketing mix to support existing product

- Better communication, product positioning, brand identification, image and identity by clarifying role, uniqueness and product benefits

- More effective promotion (sales force, advertising, PR and promotions)

- Price reduction and volume incentives eg price advantages for regular users and families

- Improve profitability from existing customers

    - Identify most profitable segments and concentrate resources on them

    - More focussed promotion (eg more selective sales prospecting, more targeted advertising and direct mail) and distribution (eg targeted agents or wholesalers) to these segments

    - Maximise contribution by trading volume for price increases

    - Value adding involving adding product and/or service benefits where the incremental price provides a much higher margin eg existing product gross profit mark-up is 50% but we increase the price by $20 where it only cost $10 to provide the new benefits resulting in 100% mark-up in incremental terms.

- **MARKET DEVELOPMENT STRATEGIES**

  Involves new ways for existing products in new segments.

  - Enter or open up new geographical segments - regional, interstate or overseas through licence agreements, joint ventures, new agents, new offices, servicing from the home office

  - Enter or open up other demographic, psychographic and behavioural segments by

    - Using new distribution channels eg

      - Retail outlets for home use of computer hardware and software (extended from commercial distributors for office use)

      - Marketing holidays through the Internet and compact disks

    - Advertising in new media to reach new segments

    - Raising price to attract prestige buyers in higher segments

        - Lowering price to attract price conscious buyers in lower segments

        - Offering try before you buy sample promotions to non-users

        - Finding new uses for new users eg promoting a farm for farm holidays

- **PRODUCT DEVELOPMENT STRATEGIES**

    - Product enhancements

        - "Facelifts" involving aesthetic changes to maintain product image and newness/freshness

        - New features and activities to encourage re-purchase and repeat visitation from existing segments

        - Extended new features to appeal to new segments eg extra facilities for children to tap the family market

    - New products

        - Fundamental upgrades to existing products eg

            - A major overhaul of the function and aesthetics of an existing product involving new materials, new components, new packaging

            - Major renovations and re-building programmes

        - Extension of the product line eg

            - New products at the top end and bottom end of the product line to increase sales and protect existing products from competitive threats

            - Land acquisition of adjoining sites for increased accommodation and/or activities

        - Developing new product lines that complement the existing product line

        - Major new products eg resort, theme park, tourist village

- **DIVERSIFICATION STRATEGIES**

  To illustrate these strategies assume we are running a business as a tour bus operator.

- Vertical integration
    - Forwards (towards the customer) - eg we could start up or buy a business such as a tour wholesaler, travel agency, restaurant, retail outlet or even a finance company to help facilitate sales
    - Backwards (towards the supplier) - eg we could start up or buy a motor repair workshop, a bus body-building and assembly factory or a fuel distribution outlet.
- Horizontal integration - involves starting up similar businesses under different brand names or buying competitors eg taking over another bus operator
- Capitalising on existing field strengths. For a business selling products through a strong distribution or sales-force network there is an opportunity to sell other different products using these strengths. Eg our bus operator might have strong contacts with tour wholesalers and decide to promote (for a commission) other tourism products through this network with package deals etc
- Capitalising on financial and/or management and/or locational strengths by starting up or buying a completely different business

- **PROGRAMMES & SCHEDULES**
    - Once strategies have been identified they have to be documented and quantified.
    - Each proposal needs to involve those responsible for implementation and in its final form circulated to them for comment and commitment.
    - Each project should then have a schedule worked out to show the sequence of activities and timelines.
    - Detailed budgets reflecting these activities should be prepared and signed off.
- **PRIORITIES**
    - There may be many programmes (too many)
    - Each programme must pass feasibility test requirements
    - These tests will help determine which programs should have priority for funding allocation
    - Even within a programme there will be priority tasks

- After funding allocation, how does the combined program look?
- It is desirable to establish a rating system for programmes and projects
- Techniques for determining priorities within a programme and between programmes include Portfolio Analysis, PERT and Zero Base Planning and Budgeting

- **PORTFOLIO ANALYSIS**
  - Portfolio analysis is an analytical and prioritising process for comparing a collection (portfolio) of different businesses and/or product groups and allocating resources between them according to their fit with markets and organisational capability in order to maximise future profit potential.
  - It borrows thinking from the stock market where investors have a portfolio of shares in different companies
  - It is a logical extension of SWOT analysis and could be completed in part at that stage of business planning, certainly as far as existing businesses are concerned.
  - It is designed to avoid problems of an unbalanced portfolio such as
    - Poor profits, cash flow and growth through having too many losers (a losing problem)
    - Management indigestion and cash flow pressure resulting from excessive growth through having too many winners (a winning problem)
  - **Boston Consulting Group Grid**
    - Products, product groups or strategic business units are placed on a grid consisting of four categories…stars, cash cows, question marks and dogs
    - Strategic business units (SBU's) are areas of the organisation which can be grouped together according to a common strategic factor eg locational centres, customer groups or technology areas (inc product groups)
    - A grid is developed with growth rate on the vertical axis and relative market share on the horizontal axis

Growth Rate	Market Share	
	HIGH	LOW
HIGH	Stars	Question Marks ?
LOW	Cash Cows	Dogs

Stars - high growth, high share, need funds, best profit potential

Cash Cows - low growth, high share, generate funds, already profitable

Question Marks - high growth, low share, need funds, discontinue if share can't be increased

Dogs - low growth, low share, need funds, candidates for divesting

- Surplus operating funds from "cash cows" and divestment funds from "dogs" should be used to support the "question marks".
- Be careful not to over-invest in "cash cows" when they are in the mature stage of the product life cycle
- Before divestment of "dogs" takes place
    - An "out-of-pocket" analysis should be done to answer the question "what profit contribution would stop and what overheads could be avoided?"
    - Unavoidable fixed costs would have to be spread over the remaining product groups or SBU's
    - The final divestment analysis would have to consider
        - The amount of management resources that are committed to maintaining the "dog" and whether a higher return on management time might be generated in other areas
        - The risk of bad consumer experiences with the "dog" affecting other products

        - Portfolio analysis assumes that products have a long-term growth curve (product life cycle). Products start off in the early stages as question marks, perhaps then enjoy faster growth as stars, become cash cows which must be milked the growth slows down and as market maturity is reached and then dogs as the market enters long-term decline

- **McKinsey Product Portfolio Grid**

    - Developed in association with General Electric

    - Related to the SWOT Analysis because it looks at the external and the internal environments

    - Uses more market criteria than market growth including industry/market size and growth and factors concerning market quality, supply and competitive structure, industry profitability and other aspects of the external environment.

    - **Class Exercise 8** (say 15 minutes). Distribute and discuss Handout 1.6a "Market Attractiveness Check-List").

    - Uses more organisational capability criteria than market share including SBU or product group size and growth, relative market share and position, margins and profitability, manufacturing and technological position, strengths & weaknesses, image, pollution and human resource capability. It is important that the factors selected for analysis are of industry significance and could just as easily apply to any competitor. However, the scoring system is based on relative advantage.

    - **Class Exercise 9** (say 15 minutes). Distribute and discuss Handout 1.6b "Competitive Advantage Check-List").

    - The McKinsey grid analysis will suggest some generic strategies that might be explored based on conclusions whether we should **build**, **hold** or **harvest**, terms which are almost self-explanatory but which will be explained later.

Market Attractiveness	**Relative Competitive Advantage**		
	LOW	MEDIUM	HIGH
HIGH	Hold	Build	Build
MEDIUM	Harvest	Hold	Build

LOW	Harvest	Harvest	Hold

- The position on the grid for each SBU or product group is plotted using the % scores obtained from the check-list analyses (see Handouts 1.4g & 1.5a)

- Scoring is by % . Low means 0-33%, medium 34%-67%, high 68%-100%

- It might be more helpful to construct the grid with 10 rows and 10 columns so that each may be labelled 10%, 20% 30% etc

- Any SBU or product group falling into the "build" zones of the grid are attractive for **investment and growth strategies**.

    - The objective is to sustain the competitive advantages and competitive position and ride the market wave

    - Tactically we would build on strengths and overcome weaknesses and try to erect barriers to market entry

    - Cash flow might be weak in the short-term but would be expected to strengthen in the medium to long term

    - Attractiveness depends on taking a longer term view hence medium to long term planning is essential

- Any SBU or product group falling into the "harvest" zones of the grid are attractive for **milking or divestment strategies**.

    - The objective is short term cash flow

    - Tactically we concentrate on rationalisation, productivity, re-structuring etc to build cash flow

- Any SBU or product group falling into the "hold" zones of the grid are attractive for **selective strategies**.

    - Top left grid position (high attractiveness, low advantage). Here we must choose between selling out or continuing to invest)

    - Middle grid position (medium attractiveness and advantage). Here we should consolidate and develop a contingency plan to invest or sell with clear decision points linked to future changes in attractiveness and/or advantage.

- Bottom right position on the grid (low attractiveness and high advantage). Here we must hold our position for milking with offensive and defensive strategies.

- **The concept of "synergy"**

  - Synergy occurs where, through a combination of business activities, the results are greater than the total would have been if each were pursued individually with separate organisations.

  - The concept is often expressed as "2 + 2 = 5" where the combined return is greater than the sum of the individual parts. Eg

    - In military terms a cavalry unit and an infantry unit working together might achieve more than both units working separately. Unity creating greater strength

    - Two similar organisations merge and rationalise their overhead structure producing significant savings and/or greater market strength

    - Two organisations spend $1m each on research and development. One has a strong brand and the other doesn't. Both companies merge. Apart from rationalisation savings now the full $2m spent in R & D will enjoy the benefits of brand strength.

  - Sometimes the promise does not live up to the reality. An organisation might pursue a takeover target on the basis of planned rationalisation to get a 2 + 2 = 5 effect but the takeover underestimates the human resource issues, complications arise during implementation and the result becomes 2 + 2 = 3.

  - After the generic strategies have been identified we must look for synergy between the selected strategies. The strengths in one area might help and therefore add weight to the case for another SBU or product group eg

    - In production or operating

    - In research and development

    - In brand identity

        - In distribution

- **SWOT analysis verification**
    - The exploration for synergy uses the SWOT analysis also as a reference point
    - Although the generic strategies selected from the portfolio analysis are refined by synergy analysis they still need to be verified against the situational realities revealed by the SWOT analysis, particularly in reference to the key factors for success in the industry and long term trends identified in the external analysis

- **Expression in marketing strategy**
    - The selected strategies have to be translated into marketing terms for implementation purposes otherwise they will remain as theories without application.
    - This is the interface between business planning and marketing planning for organisations with more than one product group and/or business unit
    - Each product group and SBU needs a marketing strategy as a basis for a marketing plan. Strategy precedes detailed planning in all areas.
    - The "build" generic strategy (risk-accepting investment and growth strategies)
        - Segmentation - new segments
        - Positioning - brand proliferation, re-positioning
        - Differentiation - facelifting and major upgrades
        - Pricing - offensive and defensive
        - Promotion - targeted, brand-building, active
        - Distribution - expanding penetration/coverage
    - The "harvest" generic strategy (risk-avoiding milking or divestment strategies)
        - Segmentation - concentration on key areas
        - Positioning - consistent
        - Differentiation - productivity rationalisation

    - Pricing - discourage price drift
    - Promotion - decrease awareness promotion
    - Distribution - concentrate and start culling
  - The “hold” generic strategy (risk-limiting selective strategies)
    - Segmentation - consolidate/defend key segments
    - Positioning - clarify communication
    - Differentiation - specialisation and rationalisation
    - Pricing - more aggressive
    - Promotion - concentration and strengthen brand
    - Distribution - more selective
- **Competitive response analysis**
  - The last step in portfolio analysis before we finally select our strategic priorities is, like in warfare or chess, to assess the likely competitor reactions to the chosen strategies.
  - Where the situation warrants, it may be helpful to conduct a portfolio analysis for each key competitor as a basis for considering moves and counter-moves
  - Role-playing may be beneficial where one player moves and then the other with both explaining their reactions to the others’ move and the rationale for their own moves.

- **Training in strategic thinking**

  Personal experience is a good teacher but simulated training is a help with the aid of

  - Presentations and hypothetical games devised by your own organisation based on its experience in strategic decision-making
  - Computer strategy games where teams compete with each other
  - Case studies

- Wide reading and discussion concerning good and bad business strategy and strategists

- **PERT ANALYSIS**

  - A planning (P) evaluation (E) and review (R) technique (T) to help determine priorities within a programme and between programmes

  - PERT analysis grew out of simple Gantt charting which showed lines for each activity without connections**.** Instead PERT shows a plan systematically as a network of activity lines or steps to be carried out simultaneously to achieve programme objectives for time, cost and quality.

  - It identifies the "critical path" which is the longest time path through the network and the most critical chain of activities to be managed. Other activities will therefore have some time slack if they are not included on the critical path

  - The network defines events, activities, constraints and resource use

  - Where the activities are familiar, time estimations are more certain and pre-determined standards based on prior experience can be used (eg building and construction)

  - The technique for time estimation in conditions of uncertainty where pre-determined time standards for activities are not available is worth studying

    - Optimistic (say 5 months)

    - Realistic, most likely (say 7 months)

    - Pessimistic (say 15 months)

    - Allocate probability weights to each eg say a factor of 1 to optimistic and pessimistic and 4 to realistic (which is the same as saying .16 .16 and .66 respectively)

    - The expected average (mean) time is 5 + (4 x 7) + 15 which is 48 months divided by 6 (weights 1 + 4 + 1) equals 8 months

    - The level of uncertainty is measured by standard deviation

      - The maximum range of the probability distribution lies between the optimistic and pessimistic estimates which is 10 months.

      - Divide this by the sum of the weights, 10 divided by 6 equals 1.67 months

        - Compare this with the mean to measure the level of uncertainty, 1.67 compared to 8. This is useful for comparing with expected or tolerable levels of uncertainty. The higher the level of uncertainty the greater the need for management.

    - The latest date for completion for the whole project or programme is determined and then, by working backwards along the critical path using the activity times (see above) the latest completion dates are determined for each event. Critical events have no slack because there expected and latest completion dates are the same. Other non-critical activities will have slack (that is, their expected date occurs before the latest completion date) and will need less management attention.

    - PERT budgeted and actual costs are calculated for PERT activities by allocating appropriate cost codes

    - Much of the value of PERT is in the initial planning stages and so it represents a valuable planning tool even without its significant control benefits

- **ZERO BASE PLANNING AND BUDGETING PROCESS**

    - **Step 1 Develop Planning Assumptions**

        - Based on the "Situation Analysis" component of the business planning process

        - Includes service level requirements of allied departments

    - **Step 2 Identify Decision Units**

        - Groups of activities that hold something in common (area, function, product, project)

        - Cost or profit centres, product groups, SBU's, projects, programmes

        - It is desirable that decision units to be of comparable size in terms of human resources and dollars

    - **Step 3 Analyse Each Decision Unit**

        - Clarify role and objectives for the decision unit eg *"The objective for the corporate sales decision unit is to manage all domestic sales to achieve high customer service and to reach the following targets this year; a 12% increase in gross margins, increase sales to new customers by 20% and a minimum contribution margin of double the fixed cost of sales staff."*

- Describe the unique resources used eg *"One sales manager, nine salaried sales-people (each with their own territory), two in the warehouse, one part-time office clerk, one secretary."*

- Describe the flow of work operations eg *"first we meet cold canvass customer prospects by telephone ...."*

- Develop work load and performance measurements to help assess the strengths and weaknesses of the current approach and to amplify the objectives eg *"Our qualitative standards are the number of customer complaints we receive per month and the number of days delay in order processing. Our quantitative standards are gross sales revenue, new customer sales and dollar contribution margin."*

- Consider ways to improve the process eg *"We could use commissioned sales representatives but we would have to retain one salaried staff-member to provide technical advice and services."*

- Consider the advantages and disadvantages of alternative ways of operating eg

    - Centralise the function

    - Decentralise the function

    - Contract the function out

    - Combine it with another function

    - Eliminate it

- Incremental analysis

    - Decide the most important service level. This is the one with the highest priority need, the one that must be done and without it, it would be impossible to provide any meaningful service. This is the first increment of service and is expressed as a % of current level of services. It provides a real reduction in the quantity and/or quality of service. Eg *the qualitative and quantitative standards are defined as follows:-*

Increment No.	*Complaints Per month*	*Days delay in order processing*	*Sales Revenue $'000*	*New customer sales $'000*	*Contribution Margin $'000*
Last Year	*5*	*3*	*4,400*	*900*	*750*
1 of 4	*9*	*8*	*4,000*	*600*	*700*
2 of 4	*7*	*10*	*5,000*	*1,100*	*840*

3 of 4	*5*	*3*	*5,000*	*1,100*	*840*
4 of 4	*3*	*3*	*5,400*	*1,400*	*880*

- Develop the next incremental levels until the current service level is reached at 100% and beyond if necessary eg *"compared to last year's cost of $295,100*
    - *1st level $280,000 (95% of last year's expense) which assumes 1 sales manager, 7 salespersons, 2 in the warehouse and 1 secretary*
    - *2nd level $346,500 (117%) add $66,500 for 2 more salespersons*
    - *3rd level $356,700 (121%) add $10,200 for 1 part-time office clerk*
- *4th level $387,700 (131%) add $31,200 for 1 more salespersons"*

- each budget level would be itemised by account. Each account such as salaries, travel, accommodation and postage etc would have separate columns, one column for the amount expected for each increment level as well as a total column.
- Provide the decision unit analyses to top management.

- **Step 4 Review and Re-allocate Resources**
    - Top managers receive the decision unit analyses from all units and start the resource allocation ranking process eg

Decision Unit Ranking	Increment No	Proposed	Proposed Cumulative	Last Year	% compared with last year
1. Corporate Sales	1 of 4	280,000	280,000	295,100	60%
2. Advertising	1 of 3	85,000	365,000	104,000	78%
3. Marketing Admin	1 of 3	62,100	427,100	71,100	91%
4. Corporate Sales	2 of 4	66,500	493,600		105%
5. Advertising	2 of 3	24,600	518,200		110%
6. Corporate Sales	3 of 4	10,200	528,400		112%
7. Marketing Admin	2 of 3	13,400	541,800		115%
8. Advertising	3 of 3	17,600	559,400		119%
9. Corporate Sales	4 of 4	31,000	590,400		126%
10. Marketing Admin	3 of 3	12,500	602,900		128%
TOTAL		602,900	602,900	470,200	128%

- if top management decides to only fund through to level 6 for $528,400 then corporate sales would only get $346,500 an increase of 17.5% more than last year's $295,100.

- the ranking is discussed and each increment is put into competition with other increments on the basis of costs and benefits to the overall organisation. This process improves resource allocation choices and communication.

- the zero-base process therefore puts all activities to the same test as any additional budget request. It guards against the status quo being justified just because it has been done for years. Instead each year we start with a clean sheet, a zero-base, and all activities have to be justified in absolute and relative terms.

- **Step 5 Prepare Detailed Budgets**
  - these are in the same form a normal budgets

- **Step 6 Evaluate Performance**
  - two types of data are available to monitor performance, detailed performance standards and budgets.
  - several methods of evaluation are recommended
    - traditional monthly financial review of actual vs budget
    - quarterly output review of each decision unit using the detailed performance standards
    - quarterly plan and budget revisions

Suggested Activities

Exercise No.	Name	Handout No.	Suggested Duration	Section	Page No.
1	Selected Management Activities	1.1	10 mins	1.1	16
1	Functional Classification of Selected Issues	1.2	10 mins	1.1	16
2	10 Steps for Management	1.3	15 mins	1.1	17
3	Sample Executive Summary	1.4b	15 mins	1.2	19
4	Sample Integrated SWOT Analysis	1.4e	10 mins	1.4	38
4	Strategic Advantage Rating	1.4f	10 mins	1.4	38
5	Sample SWOT Analysis for a Country Town	1.4g	20 mins	1.4	39
6	Role/Identity Screening Criteria	1.5a	10 mins	1.5	39
7	Growth Strategies Graph	-	20 mins	1.6	45

8	Market Attractiveness Checklist	1.6a	15 mins	1.6	52
9	Competitive Advantage Checklist	1.6b	15 mins	1.6	52

Learning Outcome 2

Propose the necessary procedures to effectively manage the implementation of a business plan.

Assessment Criteria

2.1 Inform staff clearly what the objectives and content of the plan are and where their responsibilities lie, by:

- promulgating policy statements;
- circulating memoranda setting out the responsibilities to each;
- conducting meetings to brief and explain their roles.

2.2 Justify necessary details to enlist commitment of all staff involved to achievement of performance targets, both quantitative and qualitative;

2.3 Debate the importance of initiating staff input into the plan from the time of its introduction, and in setting up channels of communication for ongoing effective and timely feedback.

2.4 Define reporting lines, procedures and frequencies for concise the clear reports which provide authorities with all relevant information and recommendations to amend plan or correct activities to conform to plan.

Content

2.1 IMPLEMENTING THE BUSINESS PLAN

This section deals with the business planning step "Implementation" (Who will be responsible?)

- **Introduction**
  - The main resource material to be used for illustration in Learning Outcomes 2 and 3 will be the Enrico's Investments Case Study. It is imperative that this assignment be completed before this section commences.
  - Implementation involves all areas of management and every manager must have the ability to get things done through other people.

- We have to get the right people in the right place at the right time with the required skills and resources to do the job better than the competition.

- In summary, there are several key considerations for designing and managing implementation:-

    - Consolidate the key steps from the strategic programmes and schedules

    - Review the responsibility areas in terms of human resource availability

    - Review how these responsibility allocations and work-loads match the existing organisation design and responsibility profile

    - Ensure adequate physical and financial resources are available

    - Define performance requirements for key organisational units and executives

    - Determine personal motivation and incentive systems

    - Analyse key inter-relationships and co-ordination procedures

    - Ensure adequate participation of those responsible for detailed operational implementation

    - Establish appropriate information systems to ensure timely and effective measurement of performance against standards so that corrective action can be taken when required

    - Adopt relevant training programmes to ensure implementers have the desired level of knowledge and skills before-hand

    - Ensure that all leaders understand and are committed to the implementation plan

- **Key questions concerning organisation**

    - Can we analyse the work to be done objectively without being biased by the personalities of current incumbents?

    - Can we get back to the fundamentals and adopt a "clean sheet" or "zero-base" approach as if the business were starting from the beginning?

    - Are we bold enough to assess whether the current organisation structure is structured for optimum performance in the sense of being designed to satisfy the requirements of the new strategies as well as sustaining the existing momentum.?

- Has each unit in the structure the right resources for both the existing momentum and the new strategies?

- Have we got an environment (culture) conducive to intelligent and enthusiastic participation?

- Have the new objectives been built into the main responsibility areas (eg function, geographic area, product group) shown on the organisation chart

- **Principles of organisation structure**

  - **Objectivity** - productivity will increase when the work performed is directed towards tangible, understood and accepted objectives

  - **Specialisation** - performance can be enhanced through specialisation because the division of labour matches human territorial, achievement and recognition needs

  - **Logical Arrangement -** logically arranged work tends to produce the greatest accomplishment and highest personal satisfaction for the largest number of people over the longest period of time

  - **Minimum Resources -** full loads should be allocated to avoid waste, forced busy-ness, tension and frustration

  - **Maximum Span -** the more people each manager can effectively manage the smaller the total numbers required

  - **Minimum Levels** - the fewer the levels (the flatter the organisation chart) the greater the potential effectiveness for the people involved

  - **Split Groupings** - to be avoided if possible because they encourage duplication and force the supervising manager to spend unnecessary time co-ordinating the split groups activities eg a marketing manager who supervises an advertising manager, a sales manager, a research manager and a product manager

  - **Management Bias -** a natural tendency for managers supervising two or more different functions, products or geographic units to favour the most familiar or the closest

- **Types of organisation structure**

  We are looking for a consistent pattern of grouping work to be performed and that will best satisfy corporate objectives.

  There are three types:-

- Functional organisation structure
    - The key word is **specialisation**. Grouping is made in terms of the different kinds of work to be performed with each position specialising in one kind of work
    - Suits small organisations
    - Economical to administer and flexible
    - With growth the tendency is to add layers which creates problems with communication and decision-making and also as the organisation expands into new products, markets and areas
- Divisionalised organisation structure
    - The key words are **end result accountability**. Work is grouped in terms of the end results desired and therefore accountability is for the completed end product, not just for parts of it
    - Primary kinds of work necessary to achieve overall objectives are to be performed within the same organisational grouping
    - Usually occurs at the first level (below the CEO) on the basis of products, markets or geographic areas
    - In large diversified organisations some activities might be centralised eg legal, corporate public relations, personnel management
- Matrix organisational structure
    - The key words are **project-orientation**. The work to be done is grouped in terms of projects or programmes which have a limited life span.
    - Some activities might centralised
    - Sometimes project teams are established within a functional or divisionalised structure, requiring a manager to incorporate a project leadership or membership responsibility with their existing responsibility
- **Class Exercise 10** (say 30 minutes). Discuss an appropriate organisation structure for the Enrico's Investments Case Study.
        - For the development project team;
        - For the restaurant and resort activities.

- **Organisational change**

The following steps are essential when planning organisational change

- Establish the design criteria for the new structure. This involves an understanding of the business plan, particularly mission, objectives and strategies.
- Define the existing structure and responsibility profiles
- Define the ideal organisation in terms of the planning requirements and not the existing people. Develop the structure first and then the people. Do not develop the ideal structure around the strengths and weaknesses of existing people.
- Define short-term improvements required eg clarify responsibilities, streamline, cut duplication etc
- Develop a staged organisation development plan to move the structure from where it is to what is desired in the long-term
- Implementation involving good communication and participation

- **Delegation**
    - Delegation is an act and/or a process of assigning responsibility, authority and accountability to others
    - Getting others to do work effectively is a key part of a manager's job because it conserves resources for more important activities and multiplies key strengths through the work of others
    - Sub-objectives in the key result areas need to be defined by those responsible before delegation eg marketing manager identifies the key factors for success in the whole marketing plan to be sales incentives and differential pricing
    - Delegation involves job design, management by objectives, selection, training and development
    - Problems in delegation
        - Responsibility and authority not defined
        - Authority not delegated with responsibility
            - Fear and insecurity producing interference. Often we find it hard to let go. We fear that the job won't be done properly and become concerned over "inputs" rather than "outcomes". Often there is difficulty in accepting that others might work in a different way.
            - Good ideas get lost because of vague responsibilities, particularly with committee work

    - Participation sometimes wrongly encourages group rather than individual responsibility. Where advice is proffered this does not necessarily mean shared responsibility for decision-making and implementation.

- **Class Exercise 11** (say 15 minutes). Discuss what aspects of Enrico Bosconi's current job might have to be delegated and why.

- Steps for effective delegation

  - Identify existing accountability command points. Accountability is the obligation to do the work with the allocated resources and authority to agreed standards.

  - Clarify responsibility (the work assigned to a position)

    - Line responsibility - refers to those areas that the manager is directly responsible for, from conception through to final execution

    - Staff responsibility - areas for providing advice (eg suggestions or recommendations) and/or service

  - Clarify authority (the sum of rights and powers assigned to a position)

    - Command authority - this is the right to make the final decision.

    - Recommendation authority - this is the right to offer recommendations and for feed-back on consideration and implementation of those recommendations

    - Approval authority - the right to approve a decision before it is finalised

    - Information authority - the right to receive relevant information about plans and decision proposals etc in addition to the routine reporting system

  - Re-define responsibility, authority and accountability and

    - Ensure the provision of resources in the right quality, quantity, time and place

    - Ensure the provision of reliable information (intelligence) at the time and place of decision

    - Agree and establish controls by exception with adequate feed-back mechanisms

- Confirm commitment by double-checking that the key components of vision and direction in the business planning process are believed and understood and that there is genuine commitment to what is expected (not just to what might be inspected)

- Prepare appropriate job descriptions

- **Class Exercise 12** (say 15 minutes). Discuss the approach for establishing a job description for a new marketing manager for Enrico's Barossa Retreat.

- Preparing for delegation

    - Technical and routine work are often prime areas for delegation

    - Final management decisions, unresolved technical issues and new work are difficult to delegate

    - Define and discuss what results are expected in the form of delegation standards (performance criteria)

        - Define and discuss the major programme steps

        - Define and discuss the major scheduling requirements (eg due date, interim progress reporting dates)

        - Define and discuss budget requirements, particularly expenditure limits

        - Communicate, educate, participate, motivate

- Steps for testing capacity for delegation

    - Start out easily by encouraging people to answer their own questions eg what do you think?

    - Require solutions not problems eg ask for recommendations

    - Facilitate the persons problem-solving process through discussion

    - Select short assignments, gradually increasing the level of difficulty

    - Extend the gap between monitoring sessions

    - Deal with mistakes patiently

        - Require completed reports that are good enough to sign off yourself

- **Action plans and implementation audit**

- Action plan
  - A written summary statement of who does what and when?
  - Detailed action plans are completed after delegations have been put in place
  - Milestones and completion dates drafted in major programmes are validated and locked in
- Implementation audit
  - Leadership
    - Do superiors have confidence and trust in subordinates
    - Do subordinates feel free to discuss major parts of their jobs with superiors
    - Do superiors seek and use subordinates opinions
  - Motivation
    - Are high performance motivates used (achievement and recognition)?
    - Do subordinates feel a high degree of responsibility?
  - Communication
    - Have the objectives of the business plan been communicated, understood and accepted?
    - Have the responsibilities in achieving the plan objectives been clarified and accepted?
    - Has the action required of them to discharge their responsibilities been developed in conjunction with those responsible?
  - Procedures and schedules
    - Have procedures and schedules been developed to obtain feedback from staff initially and on an on-going regular basis?
    - Are formal opportunities in place for feedback and dialogue between staff and management

- Priorities
    - Are staff clear on their priorities and schedules for meeting action plan targets?
    - Have all the necessary resource and organisational requirements been identified?
    - Are there any organisational limitations or constraints?
- **Class Exercise 13** (say 20 minutes). What are the top five activities Enrico Bosconi must plan for and complete before investing in the proposed new resort?

2.2 FINANCIAL PLAN (What are the costs, benefits and resource requirements?)

- **Resources**
    - Capital expenditure budget
    - Human resource expenditure budget
- **Budgets**
    - Profit & loss (total and by division)
    - Cash flow
    - Balance sheet
        - Ratios
        - Funds statements
- **Summary costs and benefits**
- **Class Exercise 14** (say 20 minutes). Discuss the financial performance and plans for Enrico's Investments.

Learning Outcome 3

Monitor and evaluate a business plan

Assessment Criteria

3.1 Specify method, source, frequency and channels of collection and reporting of results to regularly review plan outcomes and formulate any recommendations for changes.
3.2 Set out performance indicators for all elements of plan to enable cost-effective monitoring and unambiguous evaluation.
3.3 Justify the maintenance of open communication with staff in order to gain their support and to give staff and customers timely information of changes to plan.
3.4 Formulate a schedule which best provides for change in order to achieve objectives with minimum disruption of cost.

Content

2.2 MONITORING THE BUSINESS PLAN

This section deals with the business planning component "Monitoring" (How are we going? Are we in control?)

- **Features of monitoring and control systems**

    - Monitoring refers to the control function in management. The plan establishes a course of action and monitoring is essential to see that the organisation stays on course.

    - Monitoring is the work a manager does to assess and regulate work in progress and to assess results secured

    - The benefits of control are

        - Better scope for delegation

        - Fewer boundary disputes

        - Better feed-back about performance and recognition of achievement

    - The systems for control are

        - Business planning system

        - Management authority and responsibility system

        - Funding approval system

    - Supply, production and distribution systems
    - Management information system (inc. accounting, marketing, human resources, projects etc)
- The principles of control are
    - The critical few
        - A small number of causes induces the largest proportion of results therefore we must identify the critical factors that will give rise to most of the consequences
        - For example, a small number of products or customers might yield the most profit. A small percentage of defects might cause the most waste. A small percentage of customers might cause the most bad debts.
        - This principle enables us to focus the greater part of our energy and resources on the few variables that yield the greatest results
    - The point of control
        - The greatest potential for control exists at the point where action takes place
        - Reason for de-centralised control
        - This recognises that the people doing the work are (or should be) the most concerned about its accomplishment and therefore
            - Should have and receive the most information about the work being done
            - Should be the first to receive this information
    - Self-control
        - Tends to be the most effective control
        - Constant correction by others builds resentment and lower enthusiasm
        - Better for people to have the tools to check themselves and correct their own mistakes
        - Requires participation in establishing plans and standards

        - Variances still need to be reported to superiors

- **Management information systems (MIS)**
    - **Definition**
        - The ability to collect, analyse, store and report information is the key to fast, precise and flexible monitoring and control.
        - MIS refers to the development and implementation of systems and schedules to collate and analyse results relevant to plan and includes data for performance standards, measuring performance, evaluating performance and taking corrective action
    - **Performance standards**
        - Performance standards are criteria specified in advance by which work and results can be measured and evaluated
        - They provide a way of differentiating between good work and poor work and validating evidence of acceptable performance
        - Managers must be able to articulate and communicate the difference between good work and poor work and the criteria for excellence in all areas of delegation
            - Good plans vs poor plans
            - Good organisation vs poor organisation
            - Good training vs poor training etc
        - Standards are developed after objectives in the form of sub-objectives, programmes, schedules and budgets
        - Standards must be realistic in terms of past performance but not set too low, producing slackness, or too high, discouraging achievement
        - Participation builds understanding and acceptance
        - Keep standards flexible by being willing to amend unrealistic plans
    - **Measuring performance**

- Records and reports provide the means for measuring performance against standard

- System reports

    - Usually written or computer generated

    - Cover the whole organisation

    - Provides managers with data relating to their accountability

    - Should focus on critical objectives and critical performance areas

- Individual reports

    - Can be written and oral

    - Go to superiors for review and discussion

    - Usually related to the business plan and budget

- Additional requirements of all reports

    - Stewardship accounting - which relates costs, income and resource use to accountability areas (eg cost or profit centres)

    - Promptness

    - Understandability

- **Evaluating performance**

    - Actual data allows comparison with the plan

    - These results must be analysed and interpreted

    - Includes formal performance reviews (say every six or twelve months) and more frequent informal reviews (say weekly or at least once per month). The accountable person explains performance against the plan and the reasons for exceptions. Problems are identified and explored and significant elements for the new plan are discussed, agreed and scheduled.

    - Involves developing and implementing systems and schedules to

        - Analyse results relevant to plan

        - Identification of tolerable and exceptional deficiencies

        - Evaluate all possible responses to the outcomes
        - Determine which plan elements should be revised

- **Taking corrective action**
    - Control is effective when managers are prompted to take remedial action themselves
    - There are two types of corrective action
        - Operating action - to deal with short term variations as a matter of routine
        - Management action - where an analysis of the basic cause concludes that more fundamental changes are required to the plan
    - Where it is necessary to change the plan, procedures must be developed to ensure that any appropriate changes to formal action plans are
        - Approved by management
        - Communicated to staff at appropriate levels
        - Continually monitored
    - It may be necessary for people to take responsibility to change themselves or ultimately (after due process) have their responsibilities changed.

Assignment 1
Enrico's Investments Case Study

This assignment must be handed out at the beginning of the module and completed before work commences on Learning Outcome 2. It will be used as resource material during presentation of Learning Outcomes 2 and 3. The case study material follows on the next page.

Assignment 2
Prepare a business plan for a tourist organisation, or other such organisation as may be approved, in management report form.

ENRICO'S INVESTMENTS

Enrico Bosconi is a well known restaurateur and investor in Adelaide, South Australia. He is the owner-manager of Enrico's Restaurant which he opened seven years ago in Rundle Street East in an area known as the East End Market Precinct. This has been a rapidly growing trendy area for retailers, restaurants and wine bars and has been attracting patronage from the once dominant area on the other side of town known as Hindley Street. There is also a large campus nearby.

The restaurant has a bar which seats 60 and is a popular spot for both drinking and dining. 250 can be seated in the dining room and 60 in the lounge.

In the immediate city area there are four privately owned establishments that are direct competitors and several fast food restaurants. Larger restaurants like the "Sizzlers" chain restaurants are located on the parkland fringe near the city and have been serious competitors in recent times. Enrico considers that they offer more service, selection and entertainment than the fast food restaurants but more difficult to differentiate from the chain restaurants except perhaps that his restaurant is less commercialised, the dining area a little more intimate, the menu more innovative and prices tend to be lower.

The restaurant's image is reasonably strong and, judging from a recent comparison of promotional material, is very well defined.

Financial performance for the restaurant over the last seven years has improved as shown in the attached documents.

Enrico has had several offers for the business for around $1m which he believes is based more on past profitability than future prospects. A figure of $2m sounds to him a more reasonable figure. He is independently wealthy with personal net assets of nearly $5m resulting mainly from the sale of a family vineyard in the Barossa Valley, a renowned wine producing region near Adelaide.

The immediate need is to consider growth strategies for the next 5 years. He is keen to expand his business, to strengthen ties with an adjoining all-suites hotel which has offered him leasehold space to expand and to consider an investment proposal for a new retreat resort in the Barossa Valley. The last prospect has Enrico really excited because it involves a joint-venture with the winery company that bought his vineyard and the proposed site is next door to this vineyard. In fact the proposed site lies adjacent to a number of historic buildings housing the winery and is also surrounded by other vineyards producing wine and marketing under their own labels.

Accordingly, Enrico now seeks good business planning advice not only for his own restaurant and the proposed resort but for the combined operation as well.

The Barossa Valley is considered by many to be Australia's premier wine producing region and is one of South Australia's major tourist destinations. It offers not only a wine experience but also outstanding natural beauty, a unique heritage and culture, and a quiet, relaxed atmosphere. This is Enrico's home. He has known for some time that the valley has lacked a high standard wine theme hotel catering for holiday visitors and conference delegates who are looking for destination based accommodation with a range of recreation and other facilities.

The Barossa is only one hour's drive from Adelaide with a population of 11,000 persons but adjacent to a city population of 1.1 million persons making it a popular day trip destination as well.

The largest existing facility is a motel with 40 rooms and Enrico considers there is an excellent opportunity for a larger hotel offering rustic accommodation with tennis, squash, swimming and bush walking experiences and most importantly for some wine experiences so that guests can become personally involved in learning about viticulture and wine.

The site is well located with good access, topography and views but the key feature is that it will have a high impact to visitors on arrival as they see it nestled amongst vineyards and mature gum trees.

The proposed development will be a high quality, low density hotel set in a rural environment with wine and vineyards being the dominant theme. The design theme for the building will be a blend of early Australian colonial style architecture in bluestone or sandstone set in landscaped surrounds, representing an expanded traditional Australian farmhouse. The accommodation will consist of 70 hotel suites, 10 1-bedroom cottages and 2 executive 2-bedroom cottages. There will be a formal restaurant and two bars featuring South Australian wines. The convention rooms will have a seating capacity of 100 persons with smaller rooms for 12 persons each. There will also be a small retail area, extensive recreation and parking facilities. The estimated construction cost is $6.8 million with an additional $1.6 million anticipated for recreation, parking and landscaping services.

Initial enquiries suggest that two segments will be targeted, the holiday/short break visitor market and the business conference market. Industry leaders and analysts endorse the need for a large convention venue which offers quality accommodation with a range of recreation facilities. They see this as a major drawback for stimulating visitation to the area.

A recent Barossa Valley visitor survey reveals the following information:

- Only 22% of visitors who stayed for one night or longer came from South Australia which is considered low primarily because of its popularity as a day trip destination;
- 50% of international visitors came from New Zealand and the USA;
- Holiday trips were 80% of all trips and resulted in at least a one-night stay. One third of the latter was of a short duration as part of longer trips elsewhere;
- The average length of stay was 2.6 nights. The average group size was 3.1 persons with more than half of all groups consisting of two persons (42% of these being married couples);
- 78% of visitors were attracted to the region by the wineries. Other factors rated highly were the peaceful, unspoiled scenery and historical buildings;
- 87% of all visitors surveyed indicated that they would like to make a return visit to the region.

The Barossa Valley has 13 accommodation establishments with a total of 242 rooms and 725 beds which comprises nearly 3% of all rooms in South Australia. Occupancy averages 45% compared with the South Australian average 53%.

The only local establishments offering comparable accommodation to that proposed are "The Lodge" at Seppeltsfield (4 rooms, $140 double for bed and breakfast), "Lawley Farm" at Tanunda (4 rooms of cottage style set in three acres, $69 for bed and light breakfast), "Hermitage of Marananga", at Seppeltsfield (10 rooms, $75 double for bed and breakfast) and "The Landhaus" at Bethany (1 room, $70 double for bed and breakfast). The remaining accommodation of 278 rooms is in older style hotels and motels which have general market appeal but no specific market segmentation.

The four major competitors for the conference market are:

- The "Barossa Motor Lodge" at Tanunda which has conference capacity for 240 persons in 3 conference rooms, the largest with a capacity of 120 persons. It has 40 units in 3 double storey townhouses with outdoor barbecue and swimming pool;
- Another hotel at nearby Tanunda, the "Weintal" can cater for 160 persons but only has one conference room and 40 residential units;
- "Barossa Junction Motel" at Dorrien has convention capacity for 550 people, 33 units and one suite;
- "Yaldara Barossa Motel", Lyndoch, which has 34 units with some convention facilities and is run in conjunction with Chateau Yaldara, a nearby winery.

Comparable developments in regions outside the Barossa Valley are "Wirrina" at Second Valley, "McLarens on the Lake" at McLaren Vale (both of which are on the Fleurieu Peninsula), "Mt Lofty House" in the Adelaide Hills and "Thorn Park" in a nearby wine producing region at Clare.

A feasibility study in the form of a cash flow analysis has been prepared for Enrico by development consultants representing his prospective joint venture partner (the adjoining winery), and these are attached.

The consultants have indicated a return on investment after 10 years of 20.06% per annum which has been based on a discounted cash flow analysis using an "internal rate of return" formula. Their calculations, however, have included a large capital gain resulting from the sale (or valuation) of the complex in Year 10 at a price of $23 million, on the basis of a capitalisation of earnings of 12%.

Enrico has just received this feasibility analysis and is not sure he understands it all and has asked you, as part of a business planning report, to explain the financial aspects of the project to him in simpler language. The main thrust of your report, however, shall be focussed on business planning advice for his combined operation of the restaurant and the resort, together with any other advice you may have concerning growth strategies and alternative options.