BUSINESS PLAN MANAGEMENT

HOW TO PREPARE A BUSINESS PLAN

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)

1.2 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

- **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
    - <u>Stage 1 - Research</u>. Apply the problem-solving process. What are the issues, trace the causes, define the needs, define the problem
    - <u>Stage 2 - Design Brief.</u> 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
    - <u>Customer Satisfaction</u> :- 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
    - <u>Productivity</u>:- 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
    - <u>Innovation</u>:- new and better including product design, facilities, computer applications, human resource management etc
    - <u>Resources</u>:- creation, conservation and use. eg inventories, debtors, equity, debt, buildings, land, patents, licensing, human resources
    - <u>Management Development and Performance</u>:- often the biggest bottleneck to improving performance
    - <u>Employee Attitudes and Performance</u>:- look at staff turnover, absenteeism, morale, time lost through stoppages and accidents, training budgets etc
    - <u>Social Responsibility</u>:-

- 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.

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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:-*

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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*

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- 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

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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%

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- 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

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