

The Business of Planning

Small & Medium enterprises form the bulwark of the country's manufacturing activity. Statistics abound on their contribution to the national GDP as well as their share towards employment generation, especially skilled. Capability building of these enterprises has been and continues to be a national priority. Facilitating growth of these enterprises is critical to sustaining National GDP growth. Most of the debate in the open realm on facilitating their growth revolves around areas like skills training, infrastructure improvement and the most vocal one being inadequate availability of credit. A number of commendable actions are being taken to address quite a few of, so to say, physical needs of the enterprises. There are many management programmes designed to embellish managerial skills of the entrepreneurs. All these factors certainly contribute to the growth of the sector. An area which perhaps needs attention is on building internal vitality to handle growth.

The pangs of growth

As is the case for any infant growing to a full blown adult through phases of adolescence, business enterprises also have to endure growing pains. Much of the growth in this sector happens by itself and in an unplanned way. An organisation with annual revenues of Rs. 5 crs with a growth rate of say 8% to 10% will be able to comfortably double revenues in say 6 to 7 years. To manage this linear growth, it would suffice to have the same internal systems and processes and management approach. But what about businesses which have grown exponentially? A business which used to be Rs. 5 crs in 2005 touched Rs. 10 crs the next year and Rs. 15 crs in 2007 and Rs. 20 in 2008. But what happened thereafter? Its' revenues plummeted back to around Rs. 5 crs levels and ever since it has struggled to keep pace. What went wrong? It was not the lack of remunerative orders or competitive pressures; neither was it due to lack of credit. Nor was it due to recession. It was the inability to handle the growth. With increase in activity, pressure on internal systems was enormous. Managerial mind-sets had to be different. Processes had to be more robust. Business performance review and management needed to be on a different plane altogether. Its organisational structure had to be growth accommodative. The list can be endless. But where does one start?

Business planning

It is here that the vital importance of the often ignored activity, yet fundamental, that of business planning becomes pronounced. Planning is both the organizational process of creating and maintaining a plan; and the psychological process of thinking about the activities required to create a desired goal on some scale. As such, it is a fundamental property of intelligent behaviour. Planning predicts what the future should look like. It is for describing the formal procedures used in such an endeavour, such as the creation of documents, diagrams, or meetings to discuss the important issues to be addressed, the objectives to be met, and the strategy to be followed. While on the one hand we need to be prepared for what may lie ahead, which may mean contingencies and flexible processes, on the other hand, our future is shaped by consequences of our own planning and actions.

Imagine building a house without a drawing!! Even 25 years back, before starting a building, one of the main points debated used to be on how the building foundation should be and how many storeys it should potentially carry. Even if we were to build without a plan, how many people will have the courage to live in it?

To succeed in business you simply must plan the steps, set priorities, allocate resources, and manage the cash. Sure, some people say they don't plan, but if they're successful then they're actually always planning in their heads. And you can keep that plan in your head if your business is very simple, cash flow is always adequate, you don't work with other people, and you don't need to communicate your business plan with other people either.

The process of planning

Similarly, business enterprises need a business plan. More than a documented business plan, it is the process of planning that strengthens the foundation of any enterprise. In smaller organisations, the plan resides in the minds of the entrepreneur. However as the organisation grows, the entrepreneur starts working with a team and it is here that a documented business plan generates a shared vision and alignment of key managers to the long-term business goals. Documented or not, undergoing the process of planning significantly strengthens the organisation.

Some of the key processes in business planning are:

1. Defining the business objective: This is to define the framework within which the organisation will operate. Where does it want to be 10 years hence; what is its' horizon? – is only national or multi-national; only profits or responsible profits; commodity or niche etc.,. In a nutshell, it is the organisations' mission and vision.
2. Defining key objectives for the plan period: Normally the business plan is prepared for a five year horizon and for this plan period, what are the key business objectives? What is the market share aspiration, turnover aspiration, profit percentage aspirations, that the organisation wants to achieve over the plan period.
3. The environment: This is to appreciate the macroeconomic factors impacting the plan period like growth rate, inflation, import tariff, free trade agreements, and political landscape. This will help assess the potential risks and opportunities that need to be cognised for and also the ecosystem which would deliver the key objectives.
4. The industry context: This is to appreciate the organisations position in the industry, its relative position *vis a vis* the competition, the industry prospects, its growth rate, the segments, the value drivers etc. There is no point in being a market leader in a sunset industry that is fast losing growth!
5. The market: This is to evaluate the playing field and bring in customer focus. Who is the customer? Which segment of the market does the entity want to play in? Is there value in this segment? What drives the market?
6. Taking stock: In the backdrop of where the entity wants to be in the future, it is very essential to critically evaluate its past performance, reasons for the performance or the lack



of it; the need to remain honest during this introspection is extremely important. Are these reasons enablers or disablers? Are they short-term and correctible or are they long-term disadvantages?

7. SWOT: All the above and more will help detail out the S [strengths] W [weaknesses] O [opportunities] & T [threats]. What is going to be done to maintain and fortify these strengths and prevent them from becoming weaknesses; similarly, how can weaknesses be converted into strengths; what are the opportunities available in the plan period and how can threats be converted to an opportunity or how can threats be de-risked.
8. Thereafter the strategies of each function of the organisation [marketing, manufacturing, finance, purchase etc.,] over the plan period is defined. These will be very detailed for the immediate year [1st year of the plan] & broad for the subsequent years. For example: the sales function will define the new products, the pricing strategies, the publicity campaign, network augmentation, brand strategy & communication to name a few. Similarly all other functions [manufacturing, HR, IT, finance] will need to detail out the respective functional strategies.
9. Thereafter the financial numbers get drawn out which would include profit & loss accounts, balance sheet, cash flows, capex & project needs; ratios etc.,.
10. Plan B: A sensitivity analysis gets done which will appreciate possible materialisation of risks and its impact on the plan financials and the mitigation strategies.
11. Finally, detailed action plans with dates and responsibility is drawn out which then becomes the KPA for the organisation and its constituents.

Communicating the plan

The toughest is yet to come. Normally, the business plans are put together by senior members of the organisation. But who is going to implement it? At the operating level, every member of the organisation needs to buy in to the plan, own up for it. This often requires hard-selling and can be quite frustrating. Different organisations adopt different attitudes to the plan communication.

In conclusion

A good business planning process brings in many advantages that include, clarity to the promoters, diagnostics about the organisation, pre-empting challenges to profitable and sustained growth, aligning all constituents of the organisation to its short, medium & long-term goals and preparing for the future. It then sets the platform for the organisation to deliver on its aspirations.

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