

Business Planning in Times of Economic Uncertainty

A White Paper

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Universal Funding Corporation

"Where Cash Flow is the Most Important Factor"

Table of Contents

The New Basics of Business.....	1
Every Business Needs a Plan	2
Executive Summary	5
Mission Statement.....	5
Goals and Objectives.....	6
Background Information	6
Organizational Matters.....	7
Marketing Plan.....	8
Financial Plan.....	9
Appendix	10
Executive Summary	10

The New Basics of Business

With recent broad changes in economic policy leading to uncertainty for many businesses, especially those effected by aluminum and steel tariffs, U.S. companies are reluctant to invest in hiring and expansion. Even with the 2017 announcement of \$1.5 trillion in tax cuts and sweeping reversals of regulations, the rising cost of inputs



Basically, consumers are hunkering down to limit spending, save money, conserve resources, and change the way they've been living. The major influence on the health of an economy is the psychological state of its consumers. When there exists a broad belief that spending beyond necessity is unwise, people will change their habits and as a result, some businesses will have to close their doors. The economy is molting into a new, leaner animal. Rather than *react* in desperation to avoid doom, firms should *interact* with the current situation with innovative and forward thinking actions.

No matter the economic uncertainty, increasing profits is typically the number one goal of any business. To ensure profitability, a company must demonstrate a competitive advantage over others in its industry, either by **cost leadership** (same product as competitors, lower price), **differentiation** (same price, better services), or focusing on an exclusive segment of the **market (niche)**. For long term maintenance of competitive advantage, a firm must ensure that its methods cannot be duplicated or imitated. This requires constant analysis and regular reinvention of competitive strategies.

A recession is the optimal time to **reinvent competitive advantage** because the pressure of a feeble economy will separate the strong businesses from the weak ones, with the weak falling out of the game entirely. Your business will be strong if you have a plan of action based upon a little industry research, an analysis of what you have and what you want, and continuous monitoring of the results of your plan. This kind of innovation is not only a necessity right now, but it is an opportunity to improve the quality and efficiency in the way you do business.



The three basic actions for growing a business in any economic climate are: **improve efficiency** (maintain output while reducing inputs, such as time and money); **increase volume** (produce more in order to spread fixed costs); **reorganize the business** (change goals, methods and/or philosophy). If you plan to implement one of these, you may as well plan to implement them all. By focusing on one of the above strategies, you will find a ripple effect that causes a need to address the others. This is a good thing.

Right now, growth may sound like an unattainable goal as businesses are grappling just to survive, but hey, "flat is the new up." If a business can keep its doors open and lights on, then it's doing better than many others. But lights and open doors don't make sales, so making changes that attract business is in a sense, striving for growth. It won't be this tough forever, but for now, putting some growth strategies into action may be what keeps your business alive, if not thriving.

Every Business Needs a Plan

Without a plan, there is little hope for growth, let alone survival. As my small business development counselor, Terry Chambers says, “If it’s not written, it’s not real.” That doesn’t mean it’s unchangeable, but it does show that you mean business. In order to accomplish your strategies of improving efficiency, increasing volume, and reorganizing your business, you’ve got to examine what you have, what you want, and how you plan to get there.

Sometimes it takes a significant event or change in existing conditions for a business to create a written plan. I think it’s safe to say that the state of the economy is a significant change that should prompt business owners to alter the way they’ve been doing things. If you already have a business plan, it’s time to get it out and revise it. Make sure your plan includes answers to these questions:

- What do I want to accomplish?
- What do I have to work with?
- How have I done in the past?
- What might I do in the future?
- What will I do now?
- How will I do it?
- Is it working?



A business plan can be used as a vehicle for accurate communication among principals, managers, staff, and outside sources of capital. It will also help to identify, isolate, and solve problems in your structure, operations, and/or finances. Along with these advantages, a business plan captures a view of the big picture, which makes a company better prepared to take advantage of opportunities for improvement and/or handle crises.

Essentially, the three main elements of a business plan are strategies, actions, and financial projections. In order to cover all of the principle elements, you will engage in other types of planning:

- **Marketing plan:** Includes analysis of your target market (your customers), as well as the competition within that market, and your marketing strategy. This plan is usually part of the strategic plan.
- **Strategic plan:** Asses the impact of the business environment (STEER analysis: Socio-cultural, Technological, Economic, Ecological, and Regulatory factors). Includes company vision, mission, goals and objectives, in order to plan three to five years into the future.
- **Operational planning:** With a focus on short-term actions, this type of planning usually results in a detailed annual work plan, of which the business plan contains only the highlights.
- **Financial planning:** The numerical results of strategic and operational planning are shown in budgets and projected financial statements; these are always included in the business plan in their entirety.

- **Feasibility study:** Before you decide to start a business or add something new to an existing business, you should perform an analysis of its strengths, weaknesses, opportunities, and threats (SWOT analysis), as well as its financial feasibility, then assess its potential sales volume.

The process of business planning does not end when the written plan is complete. Business planning is a cycle, which includes the following steps:

1. Put your plan of action in writing.
2. Make decisions and take action based upon the plan.
3. Gauge the results of those actions against your expectations.
4. Explore the differences, whether positive or negative, and write it all down.
5. Modify your business plan based upon what you learned.

President of Palo Alto Software, Inc. and business planning coach Tim Berry says, “Planning isn’t complete unless you’ve planned for review.” Review is the fundamental action that initiates putting your business plan into action. In his [blog at Entrepreneur.com](http://entrepreneur.com/article/191304) (entrepreneur.com/article/191304), Berry lists some insightful strategies to making good use of your plan review, a few of which include keeping the review meetings as brief as possible and an emphasis on metrics as key to effective review.

Write your business plan in sessions. Don’t think that you have to produce a business plan before go to bed tonight or you won’t be able to open your doors for business tomorrow. I like Tim Berry’s [Plan-As-You-Go](http://entrepreneur.com/article/189514) (entrepreneur.com/article/189514) method of business planning. The practice of planning is an effective way to really get to know your business and you might end up discovering some important things about your company and about yourself.



There are various strategies and outlines available that will guide you in choosing the appropriate format for your business plan. Check out the collection of [sample business plans](http://bplans.com/sample_business_plans) (bplans.com/sample_business_plans.cfm) for a variety of businesses at bplans.com. Every business is different, therefore every business plan will be structured differently, but for the purposes of this white paper, I will present the fundamental elements that make up strategic, operational, and financial planning. Here is a basic outline, thanks to [NxLevel® for Entrepreneurs](http://nxlevel.org) (nxlevel.org) (2005, Fourth Edition):

General Business Plan Outline

Cover Page

Table of Contents

I. Executive Summary

II. Mission, Goals and Objectives

- a. General Description of the Business
 - i. Stage of Development
 - ii. General Growth Plan Description
- b. Mission Statement
- c. Goals and Objectives

III. Background Information

- a. The Industry
 - i. Background Industry Information
 - ii. Current/Future Industry Trends
- b. The Business Fit in the Industry

IV. Organizational Matters

- a. Business Structure, Management and Personnel
 - i. Management
 - ii. Personnel
 - iii. Outside Services/Advisors
 - iv. Risk Management
- b. Operating Controls
 - i. Recordkeeping Functions
 - ii. Other Operational Controls

V. The Marketing Plan

- a. Products/Services
 - i. Products/Services Description
 - ii. Features/Benefits
 - iii. Life Cycles/Seasonality
 - iv. Growth Description (Future Products/Services)
- b. The Market Analysis
 - i. Customer Analysis
 - ii. Competitive Analysis
 - iii. Market Potential
 - 1. Current Trade Area Description
 - 2. Market Size and Trends
 - 3. Sales Volume Potential (Current and Growth)

c. Marketing Strategies

- i. Location/Distribution
- ii. Price/Quality Relationship
- iii. Promotional Strategies
 - 1. Packaging
 - 2. Public Relations
 - 3. Advertising
 - 4. Customer Service

VI. The Financial Plan

a. Financial Worksheets

- i. Salaries/Wages & Benefits
- ii. Outside Services
- iii. Insurance
- iv. Advertising Budget
- v. Occupancy Expense
- vi. Sales Forecasts
- vii. Cost of Projected Product Units
- viii. Fixed Assets
- ix. Growth (or Start-Up) Expenses
- x. Miscellaneous Expenses

b. Cash Flow Projections

- i. Break-Even Analysis
- ii. Monthly Cash Flow Projections - First Year
- iii. Notes to Cash Flow Projections (Assumptions)
- iv. Annual Cash Flow Projections - Years Two and Three

c. Financial Statements

- i. Projected Income Statement
- ii. Balance Sheet
- iii. Statement of Owner's Equity

d. Additional Financial Information

- i. Summary of Financial Needs
- ii. Existing Debt
- iii. Personal Financial Statement

VII. Appendix Section

- a. Action Log
- b. Supporting Documents (Resumes, Research Citations, etc.)

Executive Summary

A business plan starts with an executive summary, which is a one or two-page summary of your business plan, or an introduction to your business. Although this section is at the beginning of the business plan, it is the last thing to be written. You'll be able to condense your business plan more succinctly once you have the opportunity to work through the other parts of the plan. The executive summary may be the only thing a potential investor or financier will read, so write it last because it has to be the most compelling.

Start by writing a description of your business, including what stage of development it is currently in (conception, start-up, first year, mature, exit) and your plans for growth. Discuss the nature of your business, the main products and services you offer, the market for your products and services, and how and by whom the business is operated.

Mission Statement

Then work on your mission statement. Here is where you concisely state the focus, scope and hope of your business (or values, vision, philosophy, and purpose). What is the customer pain you are soothing, the need you fulfill? Here's an example from [Coca-Cola](https://www.coca-colacompany.com/our-company/mission-vision-values) (coca-colacompany.com/our-company/mission-vision-values):

Our Roadmap starts with our mission, which is enduring. It declares our purpose as a company and serves as the standard against which we weigh our actions and decisions.

- To refresh the world...
- To inspire moments of optimism and happiness...
- To create value and make a difference.

[PepsiCo](https://www.pepsico.com/sustainability/Performance-with-Purpose) (pepsico.com/sustainability/Performance-with-Purpose) has a different take:

PepsiCo is focused on delivering sustainable long-term growth while leaving a positive imprint on society and the environment - what we call Performance with Purpose. Our focus includes transforming our portfolio and offering healthier options while making our food system more sustainable and communities more prosperous. In doing so, we believe we will pave the way for PepsiCo's future growth and help others thrive.

This is the mission statement of [Inspiration Software®](https://www.inspiration.com/About-Us), Inc. (inspiration.com/About-Us):

Our mission

To support improvements in education and make a positive difference in the lives of students and thinkers of all ages, by providing tools and services that help them achieve their academic, professional and personal goals.

Goals and Objectives

Next, outline your company goals and objectives, including long-term and short-term goals. You will get into more detail on how the goals will be accomplished in your operational plan and annual work plan, so focus on brevity at this stage. There is a difference between goals and objectives and it's important to know what that is. I like how Andrew Smith explains it in his [business planning blog](https://bit.ly/2JH4lXX) (bit.ly/2JH4lXX). Objectives are non-emotional, precise descriptions of what is needed to achieve a goal. Goals can involve emotion and don't have to be as specific as objectives. Objectives are the steps to actualizing the goal. Here's an example:

Goal:

- To increase revenues by 50% by the end of the year.

Objectives:

- Add a new product to our line.
- Expand marketing outside of local area.
- Develop a new customer retention strategy.

Of course, you will need a plan of strategies in order to accomplish each objective, but those details will be expounded upon in your annual work plan. A list of three short-term and three long-term goals, along with the objectives necessary to achieve them, is sufficient for most business plans. Remember to replace the goals and objectives with new ones as you check them off your list.

Background Information

The section that details the background information should start with identifying the industry your business is in. Even if you are not a member or have no intention of becoming involved, you should list any [trade associations within that industry](https://bit.ly/1NSwLuQ) (bit.ly/1NSwLuQ); you never know when you may need those connections. Find out what publications, magazines or journals are available to businesses in your industry. Use these and other sources of business information to identify how past trends (economic, social, political) affected the industry, as well as any current or future trends that may have an impact.

How does your business fit in the industry? What is the history of your business, including who started it, what changes have occurred, when was it started, where was and is it located, how was it started and operated, and why it was started? What barriers to entry, if any, have you recognized?



Organizational Matters

The ownership hierarchy of your business, the management structure, and the personnel are described in the section on organizational matters. This part of the plan deals with who, what and how your business runs. Who is in charge of what and how are they qualified? Discuss how the various parts of your business interact together; include details about outside contractors and consultants and what functions they perform. See the example below, thanks to [Edraw Soft Vector-Based Graphic Design](http://edrawsoft.com/project-organizational-chart.php) (edrawsoft.com/project-organizational-chart.php).



The organizational section of the business plan also needs to include an explanation of your record keeping process, checks and balances, and control management systems. Anyone who reads your business plan should be able to understand the organizational procedures for running your business day-to-day, as well as in an emergency situation.

The [risk management plan](http://wikipedia.org/wiki/Risk_management_plan) (wikipedia.org/wiki/Risk_management_plan) needs to be fleshed out in the organizational section as well, including your risk strategy, the different types of insurance required, your contingency plans, and problem-solving protocols. What will you do if a natural disaster ruins part of your inventory? How will you handle the sudden illness or long-term absence of a key manager? What happens if you are unable to finish a project on schedule? What are some early warning signs to watch for?

It may not be pleasant to imagine all the “what ifs,” but doing it now and planning for those unexpected events will improve your company’s chances of surviving a storm. For an excellent step-by-step guide on the details of developing a risk management plan, see [this article at wikiHow.com](https://www.wikihow.com/Develop-a-Risk-Management-Plan) (wikihow.com/Develop-a-Risk-Management-Plan).

Marketing Plan

The next section, the marketing plan, gets into the details of what your business offers and what market it serves. Marketing is the communication of how your products and services “ease customer pain.” Show the problem and how your business solves it. Marketing is a necessity for every business because once your doors are open, you must invite customers to come in. Everything you do in your business that affects customers is marketing because it sends a message about your company.

This part of the plan details the features and benefits of your products and services, their seasonality and life cycle, as well as any future products and services you are planning. It also includes a thorough market analysis, in which you will study your customers, your competition and the market itself. Here you should include a [PEST analysis](https://www.rapidbi.com/the-pestle-analysis-tool/) (rapidbi.com/the-pestle-analysis-tool/) (or PESTLE, PESTLIED, STEEPLE or SLEPT), in which you will consider the impact of various factors upon your business. The factors include combinations of the following, depending upon your business: social, technological, economic, environmental, political, legal, ethical, and demographic.



Studying your market will give you insight as to how you can make your business more appealing to people. Market research is more than just noticing trends in your customers’ buying habits; it’s discovering what motivates your customer to buy. Don’t assume that you already know because you’ve been in this business for years. This study often unearths characteristics about your market that are hidden or new. It’s best to discover these things before your competition.

Another key element to the marketing section of your business plan is an outline of your marketing objectives, strategies, and tactics. Writing down the avenues you travel in order to market your business will afford you the opportunity to record what worked and what didn’t work. You must be able to measure and calculate the results of your marketing efforts, otherwise, what’s the point? If you don’t know if something is working for or against you, then it’s working against you.



Include details about all of the following that are applicable to your business in the marketing section of your plan: location and distribution, and promotional strategies, such as packaging, public relations, advertising, and customer service. As a result of exploring these areas, you will naturally need to consider how much you will budget for your marketing efforts.

This question is closely connected to your sales forecast, which leads us into the next section of the business plan.

Financial Plan

The financial plan consists of four sections: Financial Worksheets, Cash Flow Projections, Financial Statements, and Additional Financial Information. All of these components will tell the story of how you plan to start or grow your business from a financial perspective. It is vital that you explain the assumptions under which you have based your projections. Example from [Bplans](http://Bplans.com) (bit.ly/2y3j7DB) are,



“We assume a strong economy, without major recession” or “We assume interest rates will stay the same over the next three years.”

I suggest that you construct easy to read tables and graphs for the financial portion of the plan. The worksheets suggested are: Salaries/Wages and Benefits, Outside Services, Insurance, Advertising Budget, Occupancy Expense, Sales Forecasts, Cost of Projected Product Units, Fixed Assets, Growth (or

Start-Up) Expenses, and Miscellaneous Expenses. You may find some of these worksheet [templates](http://templates.planware.org/gfinancials.htm#1) (planware.org/gfinancials.htm#1) to be useful.

The expected revenues and expenses for at least a year should be projected in the cash flow section of the Financial Plan. It’s better to make conservative predictions rather than be too optimistic when it comes to cash flows. As part of this section, a break-even analysis is essential. This is the “amount of units sold or sales dollars necessary to recover all expenses associated with generating these sales.” (NxLevel for Entrepreneurs, 2005) The formula for calculating the **break-even quantity** is:

$$\frac{\text{Total Fixed Costs}}{\text{Price} - \text{Average Variable Costs}}$$

The financial statements section should show the way things are now if you have an existing business, as well as a forward look at your checking account, or projected income statement. The only way a start-up company can provide an income statement and balance sheet is by projecting these figures based upon well-defined assumptions. Both start-ups and existing businesses should include a statement of owner’s equity.

An income statement shows revenues minus expenses to calculate net income or net loss. Start-ups should project these expected results for the first twelve months of business, then quarterly for the next two years. A list of a company’s assets (what you own), liabilities (what you owe), and net worth (assets minus liabilities) is called a balance



sheet. The statement of owner's equity shows the owner's initial investment, additional investments, and retained earnings, minus owner withdrawals.

The additional financial information at the end of this part of the plan should give a summary of your business's financial needs in order to grow, show its debt position, and state the owner's financial status.

Appendix

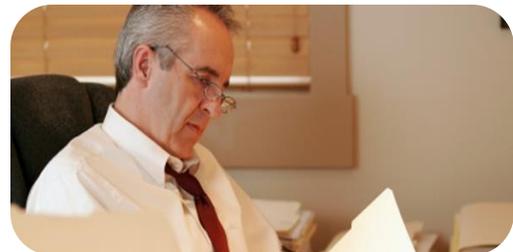
In the appendix, which is the final section, an action plan or timeline for implementing the business plan should be presented. This is where the detailed goals and objectives are expanded in a work plan. Also, include in this section any additional information or supporting documents that are relevant to your business plan, such as important research, marketing materials, product specifications, and owner and employee résumés.

Executive Summary

Now that you have written the hard part of your business plan, it's time to write the fun part, the executive summary. As mentioned in the beginning of this white paper, this is the most important piece of the business plan because it illustrates the very essence of your business in a captivating and condensed form. If you ever share your business plan with a potential investor or potential buyer, the executive summary may be the only thing that is read.

Make the executive summary brief (no more than two pages), but make sure you showcase the best qualities of your business without glossing over important information; show why yours is a winning business. Write one to three sentences about each of the following:

- General description of the business
- Mission statement
- Management structure
- Business operations
- Products/services, the market and your customer
- Your marketing plan, including the competition
- Financial projections and plans



A clear, concise, and convincing executive summary will intrigue your audience and inspire them to read the rest of your plan. If the plan is never seen by anyone outside of your business, don't assume it was a waste of time. During the planning process, you will have worked through an enlightening exercise that prepares you to run and grow a better business.

Having this written document available for frequent consultation and review will improve your chances of not only surviving but coming out strong on the other side of this recession. Most people think that knowing in the back of their mind what they plan to do is sufficient for survival or recovery, but the difference between a written plan and an idea is usually the difference between failure and success.