A very practical way to begin planning a profitable future for your organisation

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Profit is like a sausage-- very tasty until you know what goes into it

The very first thing that must be understood about business planning is the need to have very clear goals, or objectives. For example, most SMEs that I am familiar with want the shareholders to get rich either by creating shareholder value added, or be selling the company for a capital sum at some time in the future.

The process

I am Chairman of an SME that currently has a turnover of £5 million and we know that it will become a saleable proposition when this reaches £10 million.

The first point to make, then, is that an organisation has to set an objective in terms of turnover for a period of at least three years ahead. Let us call this a 'Must' objective.

Let us look, then at the figure below.

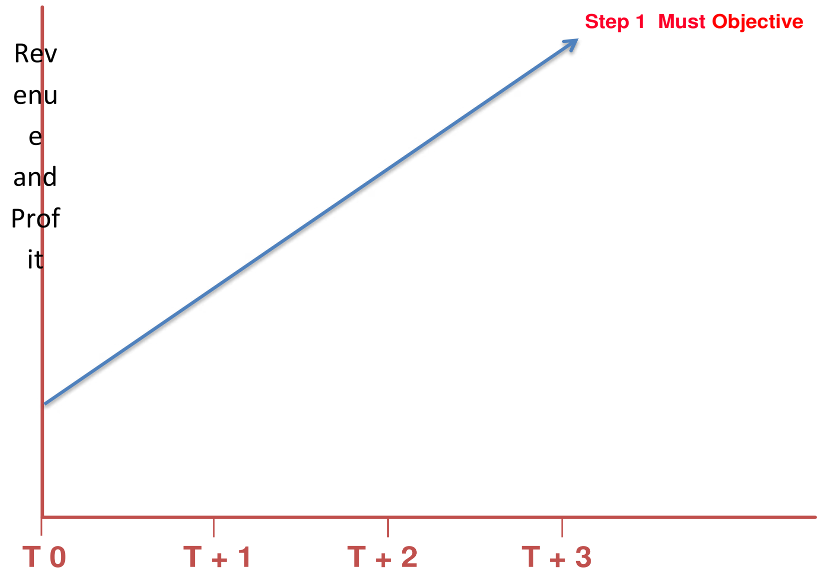


Figure 1: The "Must" objective for revenue and/or profit

It will be seen that along the horizontal axis, there is a three year timescale. On the vertical axis, there is Revenue and Profit. For now, we will concentrate on the Revenue line.

Continued on next page >

A very practical way to begin planning a profitable future for your organisation (continued)

The very first action is to take the Revenue line and project it three years out to reflect your MUST objective. This Must objective should be the revenue target that has to be achieved for you to achieve your company goals.

The second task is to project the Revenue line three years out assuming nothing changes. Let's call this the Trend, or Forecast (see figure 2 below).

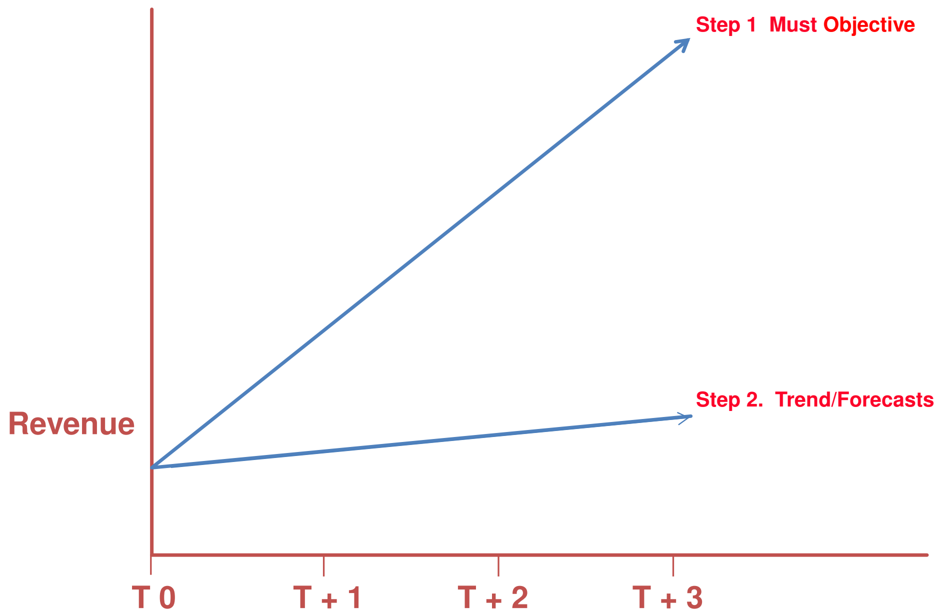


Figure 2: The "Trend/Forecast" projection

The purpose of this is to show you the size of the problem you face (the gap).

The next thing to do is to calculate how this gap might be filled.

The very first action is to consider Productivity. For example, calculate how much extra revenue you could get from the following:

- Better product mix
- Better customer mix
- More sales calls
- better sales calls
- Increase prices
- Reduce discounts
- Charge for deliveries
- Reduce debtor days
- Etc.

The approximate total from all these should be added to the gap analysis diagram (see figure 3 below).

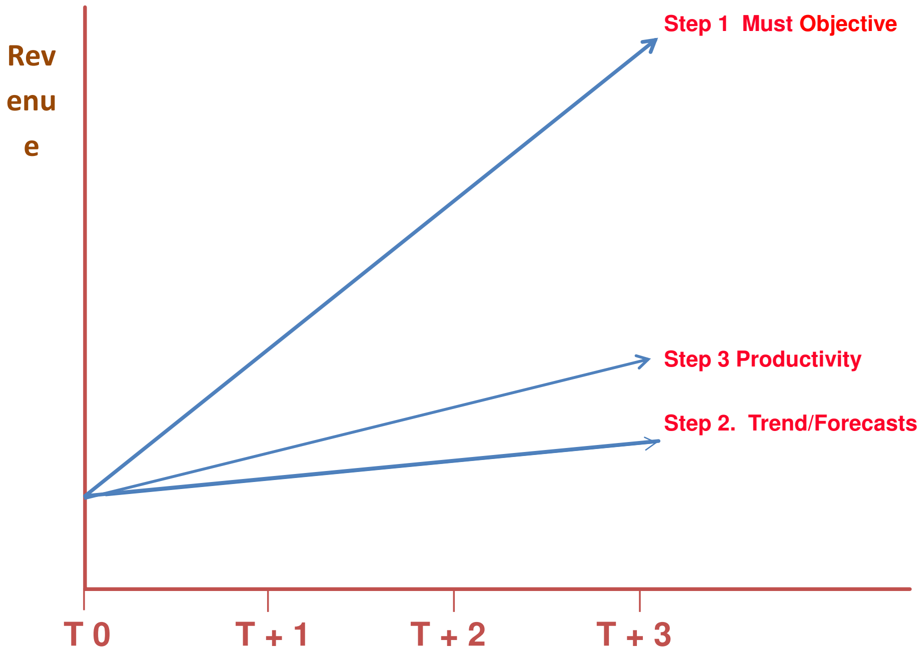


Figure 3: Gap analysis

If the gap still hasn't been filled – which is most likely– continue to the next stage.

Now list your principal products/services and the principal markets into which you sell them, using figure 4 below.

1. Select a business unit, or part of the business, for which you wish to develop a partial plan.
Business unit: ____________________
2. Along the top of the table below, list the principal products, product groups or services sold by the business unit, ignoring unimportant ones.

Products: Markets:	1:	2:	3:	4:	5:	6:	7:
1:							
2:							
3:							
4:							
5:							
6:							
7:							

3. Down the left of the table, list the principal markets, or market segments, you sell into, ignoring unimportant ones.

Figure 4: The Product-Market table

Finally, enter your current sales revenue in each box in the table above.

Next, select only the main boxes.

You will soon find out that about 20 percent of your products/services for markets account for about 80 per cent of your revenue. Concentrate on these.

Now calculate approximately in these main boxes how much additional revenue you think you can achieve from:

- Growth in the market
- Growth in your market share

We will label this 'market penetration'

Put the total of the above revenue into the diagram below (figure 5).

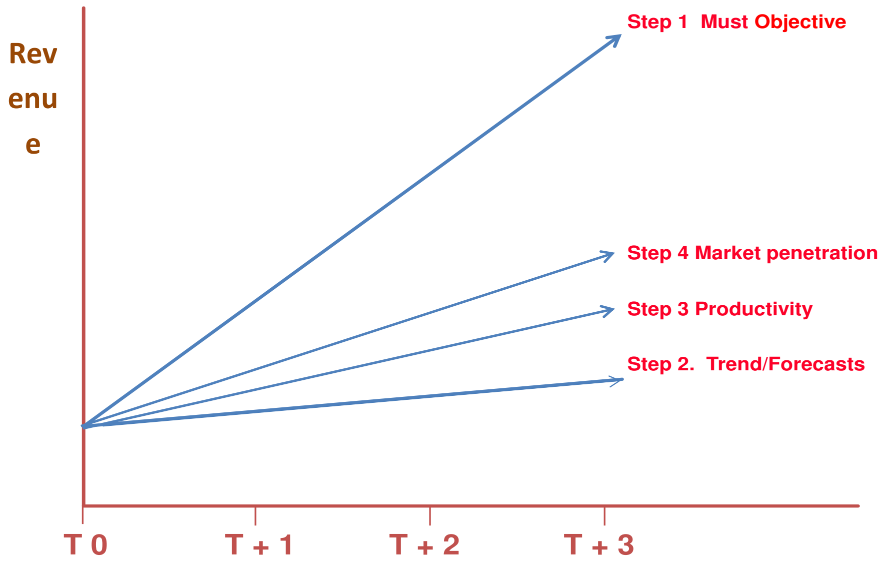


Figure 5: Additional revenues

If there is still a gap between where you need to be and where your efforts so far will take you, you now need to think about New Products. So, list the revenue you think you might get from any new products you have in mind and put the total in figure 6 below.

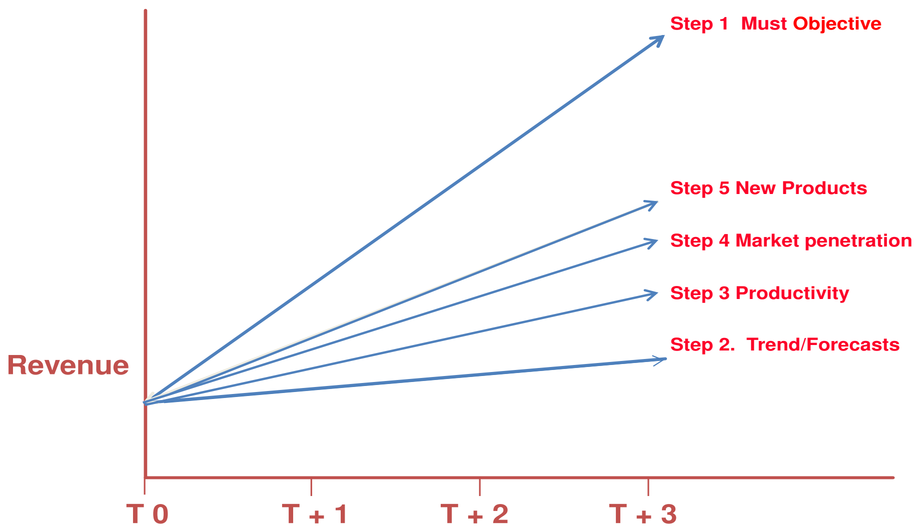


Figure 6: New products

Next, (assuming you still have not reached your Must objective, list any New Markets you may be thinking of entering. These could be new vertical markets, or new countries. For example, if you sell software to the hotel industry, you might consider entering the retail market or instead of limiting your trading to the UK, you may consider entering France. Estimate the revenue from this over the three year period and enter the figure in figure 7 below.

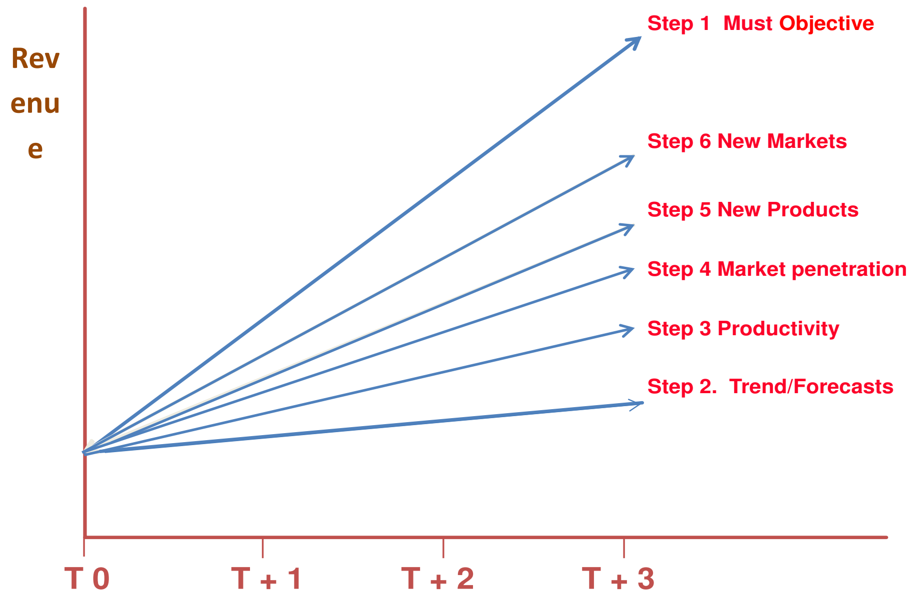


Figure 7: New markets

On the assumption that you still haven't achieved your target, now list estimated revenue from the following:

- New products/services in new markets.
- Put the resulting revenue in figure 8 below.

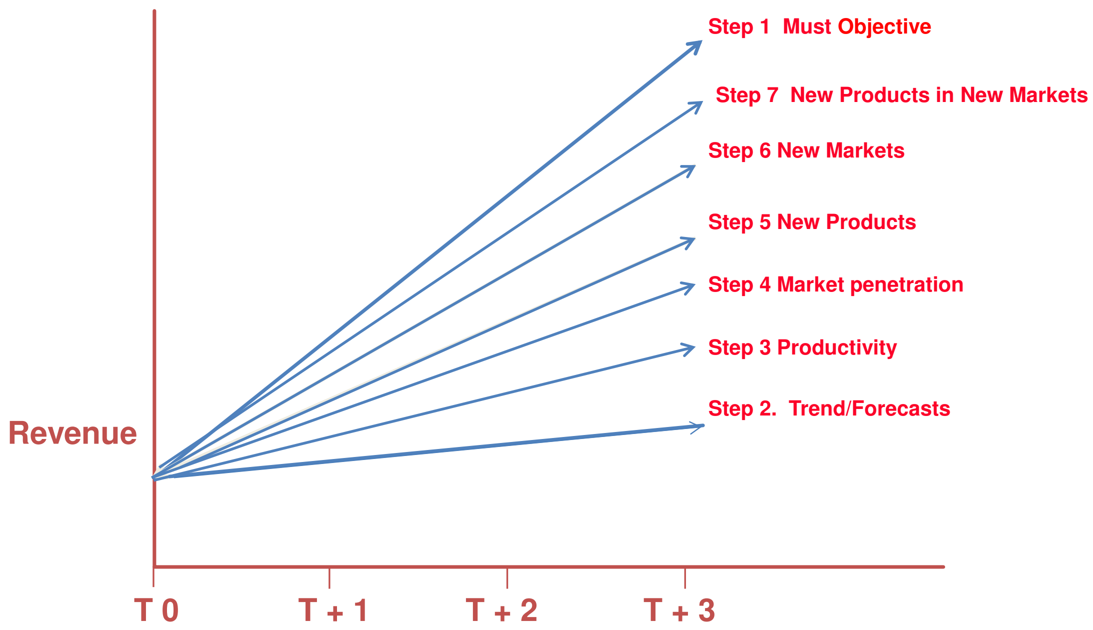


Figure 8: New products in new markets

If, as is possible, you still haven't achieved your Must revenue objective, you have exhausted every 'lever' any manager can pull to achieve their objective. At least, however, you have now quantified the gap you still have to fill. This gap can only be filled by the following:

- Acquisitions
- Joint ventures
- Licensing
- Etc.

Whilst not wishing to sound 'academic', I want to stress that most of our very best managerial tools and techniques have been initiated by scholars studying best practice and turning their findings into processes.

One such abiding process is the Ansoff matrix, shown in figure 9, indicating the process you have just been through. From this, it can be seen that the exercise you have just completed is represented by each of the four boxes in the Ansoff matrix.

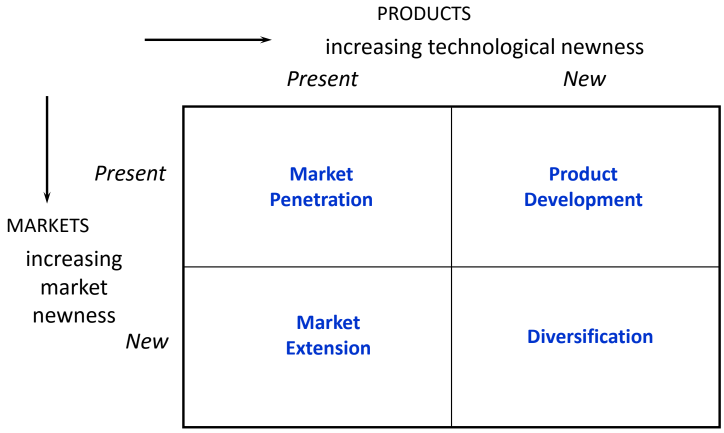


Figure 9: The Ansoff matrix

An expanded version is shown in Figure 10. This emphasises the fact that you should do all you can in the first box before moving into the other three boxes.

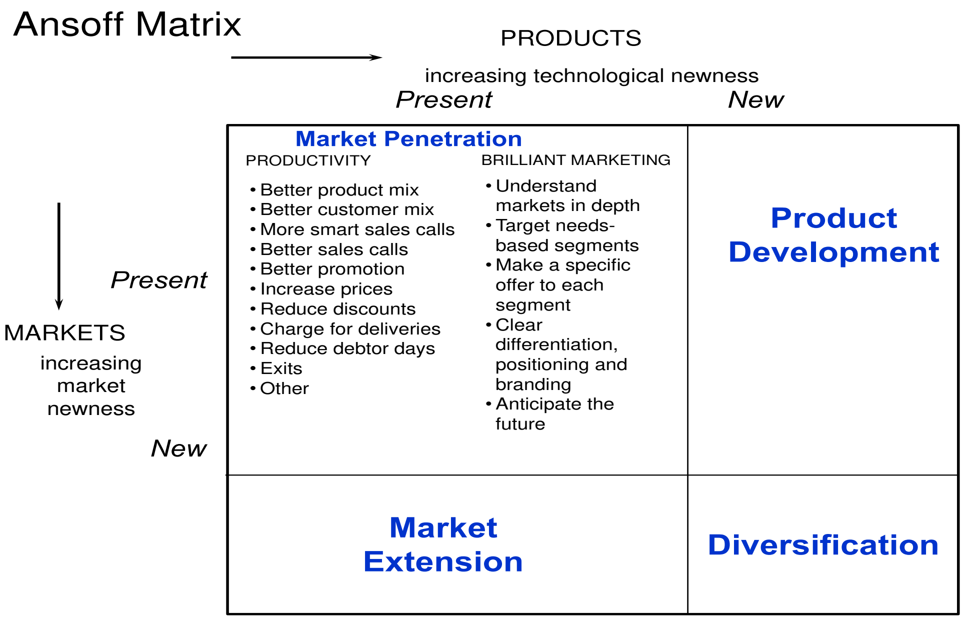


Figure 10: The process captured in Ansoff matrix

The top left box in the matrix (figure 10) is where you are at present. This is where all your expertise resides – with your present products sold to your present markets/customers. Improving your productivity here and looking for market growth and/or market share growth is obviously the least risky business strategy to employ.

If you cannot get the growth you need from this first box, the next least risky box is to introduce new products/services to your existing markets/customer, because your existing customers know and trust you.

The bottom left box is very risky, because you are entering new markets where you and your brand are unknown. Consider Walmart's disaster in the German market and Tesco's in the American market. Both assumed that their successful trading model would work abroad. But this is rarely the case.

Clearly, the riskiest strategy of all is the bottom right box, new products/services in new markets.

So each of the boxes in the Ansoff matrix represent vectors of risk, with the result that the further you travel from top left to bottom right, so the level of risk rises.

In reality, there are not only four boxes in the Ansoff matrix, because there are degrees of new product development, from adding the 'miracle ingredient x' to something new to the world, as well as degrees of new market extension from entering an adjacent market to entering a totally different market.

Figure 11 summarises in a more sophisticated way the process you have just been through. Careful examination will reveal that it encapsulates every possible strategy that any organisation could embrace.

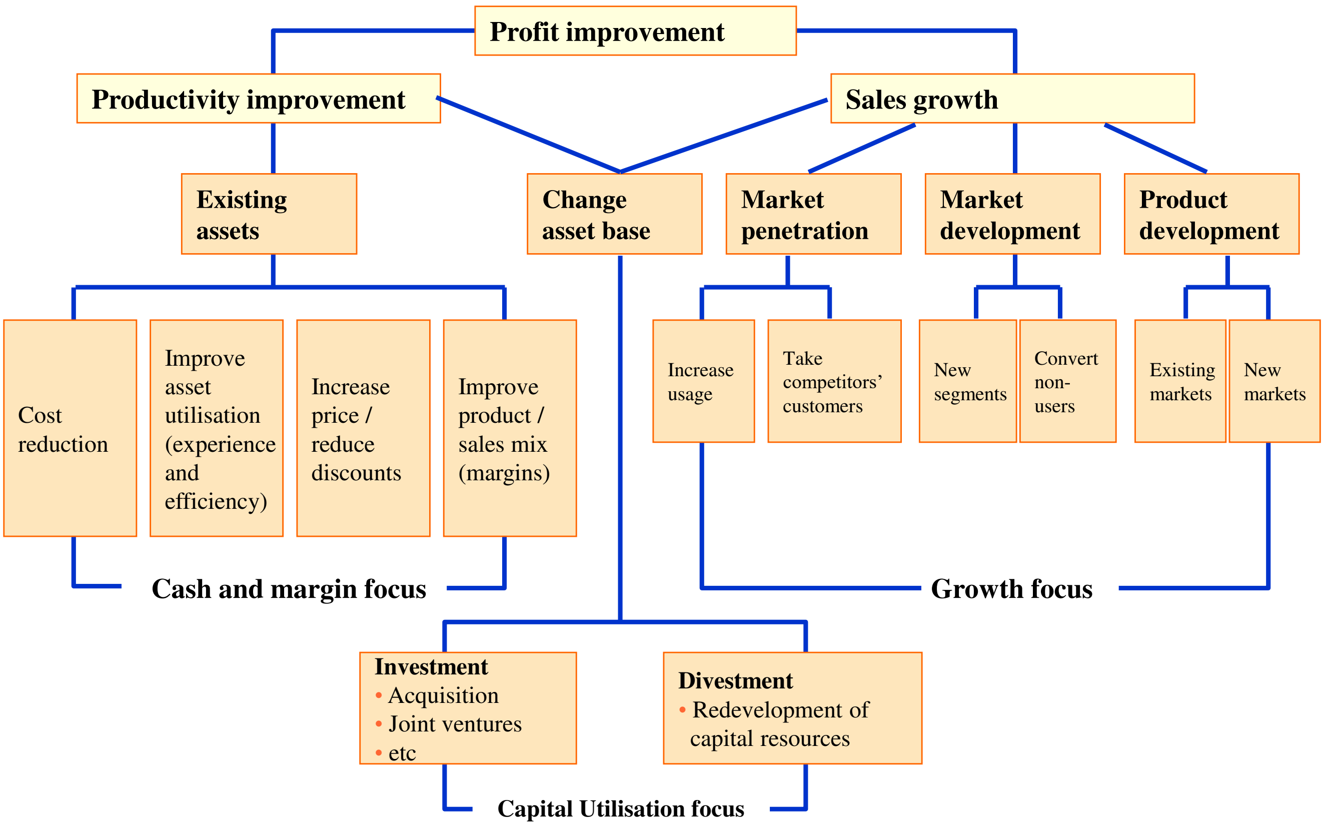


Figure 11: Types of objectives and respective actions

You can now start planning your business future and templates are provided here for this purpose.

Figures 12 and 13 can now be completed. Let me stress that there are two exercises here – one for revenue and one for profit and they should be completed separately.

One final important point

This gap analysis exercise should be completed by a small team of senior people, preferably led by the CEO. It should not take longer than a couple of hours. The major advantage of doing this exercise before attempting to write a strategic marketing plan is that it sets out in clear relief the shape of future strategy and where the company's major efforts will have to be deployed.

It most definitely is not a strategic marketing plan and does not spell out how these revenues and profits are to be achieved.

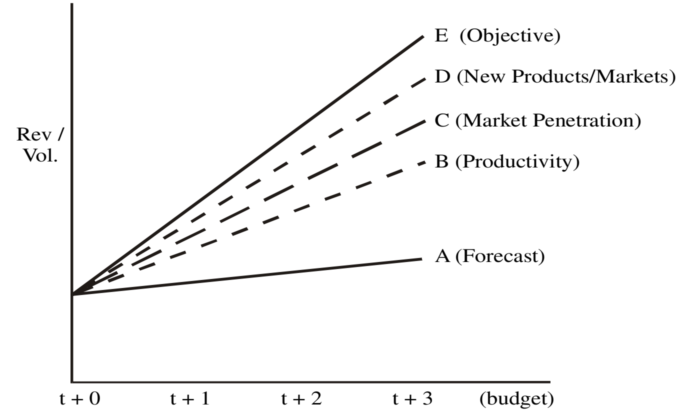
That is the purpose of the strategic marketing plan.

Reference

Based on "Malcolm McDonald on Marketing Planning, 2nd edition, Kogan Page 2016"

1. OBJECTIVE

(A) Start by plotting the sales position you wish to achieve at the end of the planning period, point E.
(B) Next plot the forecast revenue position, point A



2. GAPANALYSIS (Productivity)

Are there any actions you can take to close the gap under the following headings? Plot the total value of these on the Gap Analysis Graph on the left, point B. (These represent cash and margin focus). Now proceed to 3 below.

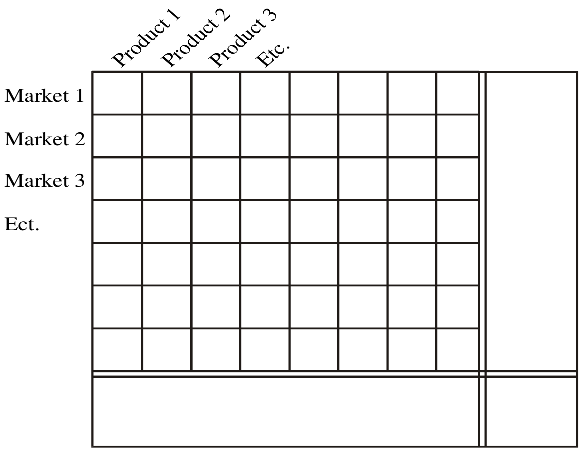
Productivity (NB: Not all factors are mutually exclusive)	Revenue
Better Product Mix (1)	
Better Customer Mix (2)	
More Sales Calls (3)	
Better Sales Calls (4)	
Increase Price	
Reduce Discounts	
Charge For Deliveries	
Total	

5. GAPANALYSIS (Diversification)

Finally, list the value of any new products you might develop for new markets until point E is reached. (Steps 3, 4 and 5 represent a sales growth focus).

6. GAPANALYSIS (Capital Utilisation)

If none of this gives the required return on investment consider changing the asset base. This could be
(A) Acquisition
(B) Joint Venture
(Step 6 represents a capital utilisation focus)



3. GAPANALYSIS

ANSOFF PRODUCT/MARKET (MARKET PENETRATION)

(A) List principle products on the horizontal axis and principle markets on the vertical axis. In each smaller square write in current sales and achievable sales value during the planning period.

(B) Next, plot the market penetration position, point C. This point will be the addition of all the values in the right hand half of the small boxes in the Ansoff Matrix. If there is a gap, proceed to 4 below. Please note, revenue from (1) (2) (3) and (4) from the productivity box should be deducted from the market penetration total before plotting pointC.

4. GAPANALYSIS

ANSOFF PRODUCT/MARKET MATRIX (NEW PRODUCTS/NEW MARKETS)

Next, list the value of any new products you might develop which you might sell to existing markets. Alternatively, or as well as, if necessary, list the value of any existing products that you might sell to new markets. Plot the total value of these on the Gap Analysis Graph above, point D. If there is still a gap proceed to 5.

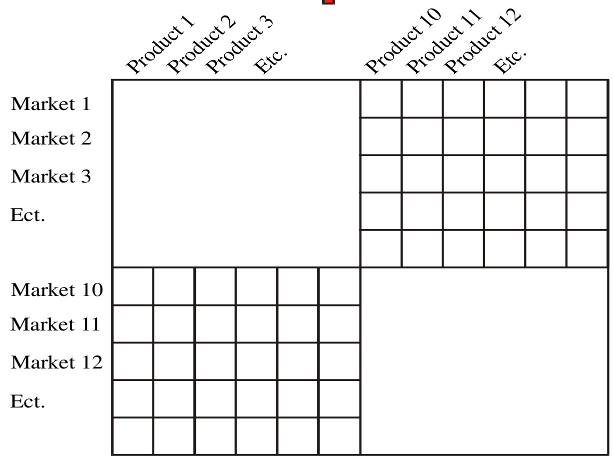


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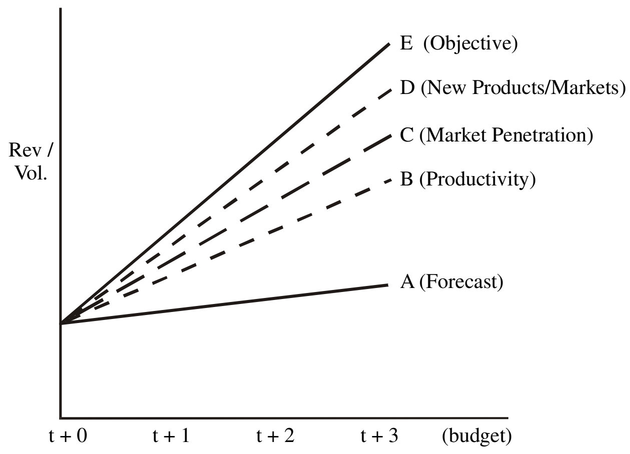
Figure 12: Strategic planning (gap analysis): revenue

1. OBJECTIVE

(A) Start by plotting the profit position you wish to achieve at the end of the planning period, point E.
(B) Next plot the forecast profit position, point A



2. GAP ANALYSIS (Productivity)

Are there any actions you can take to close the gap under the following headings? Plot the total profit value of these on the Gap Analysis Graph on the left, point B. (These represent cash and margin focus). Now proceed to 3 below.

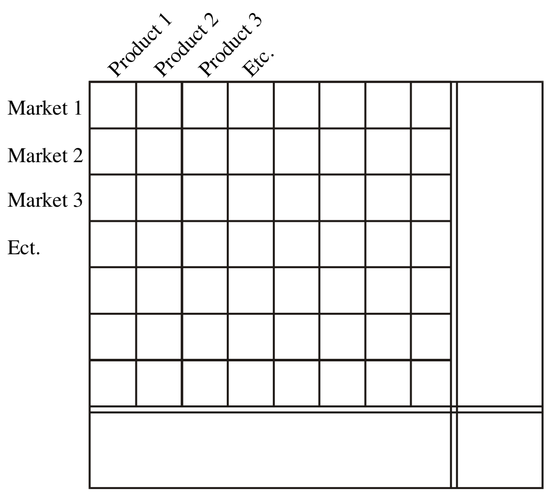
Productivity (NB: Not all factors are mutually exclusive)	Profit
Better Product Mix	
Better Customer Mix	
More Sales Calls	
Better Sales Calls	
Increase Price	
Reduce Discounts	
Charge For Deliveries	
Reduce Debtor Days	
Cost Reduction	
Others (Specify)	
Total	

5. GAP ANALYSIS (Diversification)

Finally, list the profit value of any new products you might develop for new markets until point E is reached. (Steps 3, 4 and 5 represent a sales growth focus).

6. GAP ANALYSIS (Capital Utilisation)

If none of this gives the required return on investment consider changing the asset base. This could be
(A) Acquisition
(B) Joint Venture
(Step 6 represents a capital utilisation focus)



3. GAP ANALYSIS

ANSOFF PRODUCT/MARKET (MARKET PENETRATION)

(A) List principle products on the horizontal axis and principle markets on the vertical axis. In each smaller square write in current profit and achievable profit value during the planning period.

(B) Next, plot the market penetration position, point C. This point will be the addition of all the values in the right hand half of the small boxes in the Ansoff Matrix. If there is a gap, proceed to 4 below.

4. GAP ANALYSIS

ANSOFF PRODUCT/MARKET MATRIX (NEW PRODUCTS/ NEW MARKETS)

Next, list the value of any new products you might develop which you might sell to existing markets. Alternatively, or as well as, if necessary, list the value of any existing products that you might sell to new markets. Plot the total value of these on the Gap Analysis Graph above, point D. If there is still a gap proceed to 5.

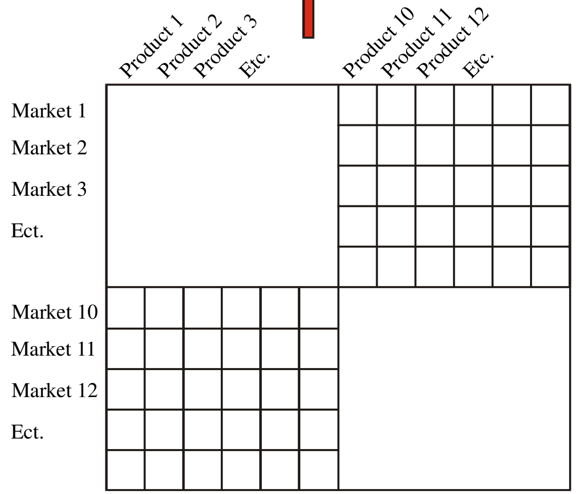
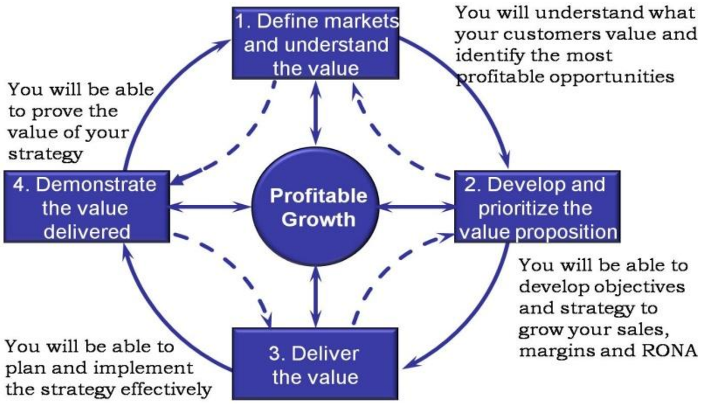


Figure 13: Strategic planning (gap analysis): profit

About Malcolm McDonald Consulting

Malcolm McDonald Consulting Ltd. is a strategic sales and marketing consulting business.

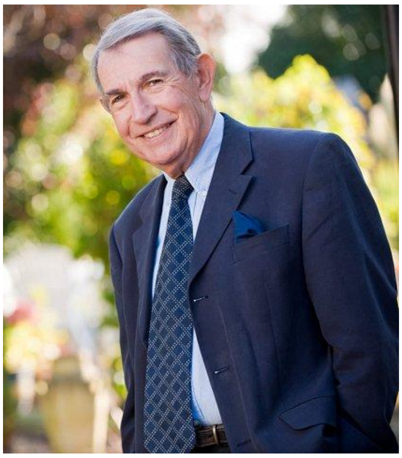


With our end-to-end interactions, from Board level to internal project team, we help companies create value through getting the fundamentals right in strategic sales and marketing, all within budget and the agreed deadline.

Professor McDonald and his team of consultants work with the Boards and internal teams of executives from a number of the world's leading multi-nationals on all continents.

Malcolm McDonald is Emeritus Professor of Marketing at Cranfield University, and Visiting Professor at Henley, Warwick, Aston and Bradford Business Schools. He authored over 40 books on marketing and key account management.

Coming from a background in business which included a number of years as Marketing Director of Canada Dry, Malcolm has successfully maintained a close link between academic rigour and commercial application. He has consulted to major companies from the UK, Europe, USA, Far East, South-East Asia, and Africa, in the areas of strategic marketing and marketing planning, market segmentation, key account management, international marketing and marketing accountability.



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