

## **BULLET-PROOF PLANNING: HOW TO GET YOUR BUSINESS READY FOR THE NEXT FINANCIAL YEAR**

**5 June 2008**

*By Mike Preston*

**Putting together a business plan is an annual ritual many business owners dread, but this year economic uncertainty means the task could be tougher than it has been in a decade.**

When even the experts can't agree on what the future holds, the planning process – usually involving an annual budget, cash flow forecast, marketing plan and business plan – can baffle even the most experienced business owner.



Business owners must find a way to plan their way past potential threats in the form of interest rates, higher fuel prices and declining consumer confidence.

But working out the vagaries of economy and market is just the beginning. The bigger challenge for many business owners is then to sell that plan – however uncertain the outlook – to bankers and boards more accustomed to sure-footed predictions of growth and prosperity.

That means business owners must strike a delicate balance between pessimism and optimism, ensuring expectations are realistic but not giving up on growth – or the prospect of a decent pay-day for all concerned.

Here are 10 tips to help you navigate the business planning minefield and set your business on course for growth in the 2008-09 financial year.

### **Top 10 bullet-proof planning tips**

- 1. Solid planning requires solid information**
- 2. Don't just plan for a best-case scenario**
- 3. Get buy-in from the board**
- 4. Make getting cashflow right your top priority**
- 5. See the bank manager and make sure he's on your side**
- 6. Tighten up debtor management**
- 7. Make your business units lean and accountable**
- 8. Don't forget your own pay-day**
- 9. Decide where you want to go and plan to get there**
- 10. Be flexible and benchmark**

## 1. Solid planning requires solid information

Just because the future is uncertain, that doesn't mean it is impossible to get relevant information on the outlook for the economy and particular sectors.

Useful sources of business information abound. On the formal side of things, many accounting and business advisory firms provide budgeting and planning software that business owners can use to forecast conditions in particular market sectors depending on variables such as interest rate rises.

Many banks and investment firms also produce forecasts on the outlook for particular market segments that can provide useful background context for a business plan.

But, according to PKF Enterprise Advisers director Matthew Field, the best information on what is likely to happen in the year ahead can often be gleaned from a business owner's informal networks.

"A lot of business owners bank on intuition to get planning right, which usually is a mix of their own business acumen, what they are hearing from their frontline staff and customers, and how that compares to their past experiences," Field says.

To sharpen up commercial antennae, Field advises business owners to broaden out their network of business contacts as far as possible.

"A lot of our clients are tapping into things like The Executive Connection forums, CEO forums and other networks where there are a lot of people with their finger on the pulse," Field says. "Professional advisers and business bankers can also be a good source of information on what people are expecting."

## 2. Don't just plan for a best-case scenario

Entrepreneurs are an optimistic lot, and that often translates into business plans that reflect where they want their business to go more than a realistic appraisal of where it is likely to end up.

More or less consistently for the past decade, that approach has been unproblematic for businesses in many sectors. In the current environment, however, single-minded optimism can result in a plan and budget that quickly becomes redundant.

David Gregory, executive director of Victoria's Small Business Mentoring Service, says business owners should adopt multi-scenario business planning to reflect the uncertain economic outlook.

"Plans and budgets should contain both realistic and a worst-case scenario forecasts that set out what they believe will be the case and, against that, how the business will be affected should something like rapid currency appreciation or further rate rises affect them more," Gregory says.

Not only can setting out a worst case scenario help business owners to manage the expectations of board members or investors, it can also be a useful tool when it comes time to visit the business banker.

"If you can show that you have considered the worst case scenario, this is as bad as you think things will get and even then you will still survive, that will help boost the confidence of your banker in your business," Gregory says.

## 3. Get buy-in from the board

By involving company directors or key investors in the planning process, business owners and managers can produce a better quality plan and help protect their own position.

In many cases, the first time a business's board see a budget and plan is when they are presented with a final version for approval.

But according to Sue Prestney, principal with accounting firm MGI Melbourne, the best business planning involves combining the front-line business savvy of company managers and accountants with the strategic nous of directors.

"Too often boards, especially in small companies, just cop what the accountant dishes up, which is often just a 'last year plus 10%' scenario. Leaving budget assumptions totally unchallenged like that can be a recipe for disaster, especially in changing economic times when you know the year ahead is not going to be the same as that just gone," Prestney says.

Just as importantly, involving directors and investors in the process of formulating plans and budgets can give them a greater understanding of why particular goals or targets have been reached – and diminish the blow-back against business owners and managers if they are wrong.

"They should really understand the basic assumptions underlying a plan, how they have been arrived at and, ideally, share responsibility for the path taken," Prestney says.

## **4. Make getting cashflow right your top priority**

If changing economic conditions are going to put the squeeze on your business, the first place you will see the signs is in the cashflow statement.

Consequently, even for business owners who think they are likely to escape slower economic conditions largely unscathed, it makes sense to put in a conservative cashflow estimate.

Paul Dignam, a senior consultant with Brisbane-based business advisory firm Gibsons JBS, says business owners should be leaving themselves a big margin for error in their cashflow projections this year.

"Accurate cashflow projections are critical, and more important than ever at the moment. You need to expect greater than usual movement given the uncertainty, and that means you can't plan down to your last dollar; you really need to leave yourself some room to move," Dignam says.

## **5. Time to see the bank manager – and make sure he's on your side**

One way for business owners to make sure their business has that extra bit of wriggle room on the cash front is to look at obtaining or increasing an overdraft facility with their bank.

MGI Melbourne's Prestney says now is the perfect time for business owners to make a visit to their banker, especially given the credit squeeze shaking the financial sector.

"If nothing else, now is a good time to be talking to your banker just to give them the confidence that you have got everything under control and you are budgeting sensibly for the year ahead," Prestney says.

And if you think it is even a remote possibility that you might need to ask for an expansion of your credit facilities sometime down the track, now is the time to raise the issue with your bank.

"Nothing makes a bank lose confidence like walking in the door and saying 'we'd like a new overdraft, and can by the way we need the money tomorrow'," Prestney says.

Another trap to avoid is presenting your bank with an overly optimistic budget. "Not only will it make your banker think you don't know what you're doing, it will make it harder to argue for more money down the track," she says.

## **6. Tighten up debtor management**

When cashflow is tight, small and medium sized businesses often see an immediate impact in the form of slower payment rates by large customers.

That means business owners should now be putting debtor management at the top of their list of items for review. During tight times, keeping debtor days to an absolute minimum is crucial, particularly as clients start piling on the pressure to extend payment terms.

Gibsons JBS's Dignam says businesses need to take active measures – including hiring or re-allocating staff – if they are to improve or maintain debtor payment rates.

"Many small businesses just let debts roll in when they roll in, and they are amazed how much of an improvement they see just by getting a staff member to ensure debtors are called in the week and then the day before debts are due," Dignam says.

Another way to help keep debtor days under control that can be particularly effective during tough times is to introduce a tiered repayment structure, with early payers receiving a discount that gradually disappears the closer they get to the final due date.

## **7. Make your business units lean and accountable**

Business owners should also use the planning and budgeting process to hunt down and eliminate any areas of excess cost or inefficiency within the company.

During good economic times, businesses tend to build up excess productive capacity, and often with good reason – doing so allows them to seize growth opportunities more quickly by increasing production or services.

But when things slow down, that extra staff member or item of plant that seemed like a good idea last year can become a dangerous drag on the business bottom line.

CPA Australia business policy adviser Gavan Ord says the budgeting process presents the perfect opportunity to run a ruler over things like staffing levels, inventory and capital stock.

"Especially where businesses are running an overdraft or some kind of debt, even relatively small cuts in things like staffing levels can help offset increased costs from higher interest rates," Ord says.

A key area of cost in the current environment that could yield significant savings is fuel expenditure. Ord advises business to check whether travel expenses can be cut back or if increased costs can be recovered from customers.

"In industries like transport, many businesses are already charging customers a fuel levy, and that can be a good way to help customers understand why prices are increasing," he says.

Restructuring the bonus targets of sales or marketing staff to focus more on tangible outcomes can be another good way to boost the bottom line.

"Linking commission payments to when clients pay money, rather than when contracts are signed, can help sales staff to assume more ownership over ensuring bills are paid on time," Ord says. "With marketing and advertising, require department budgets to justify the return on spend using clear, verifiable measures."

## **8. Don't forget that other delicate matter... your own pay-day**

The cash drawings from the business an owner takes should also be the subject of serious consideration during the planning process.

Keeping or increasing your cash drawings or wages may not have been a problem as company profits boomed, but winning that argument with your board could get a lot harder if events start tracking along worst-case scenario lines.

MGI Melbourne's Prestney advises business owners to start thinking now about how much money they will be needing this year, and how that will fit into the budget.

"It's not very often that you see business owners budgeting to reduce their take-home, and I think the reason is as much about their strong drive to see the business achieve what they want it to achieve as the money itself," Prestney says.

"That's fine as long as your cash drawing are linked to a realistic appraisal about how the business will perform, but make sure that is the case – if not, accepting that your drawings will have to be cut now could take the pressure off you and make your CFO happy," she says.

## **9. Decide where you want to go and plan to get there**

When all the news is of interest rate rises and poor retail figures, it's easy to allow a focus on the external environment to overshadow innovative plans within the business.

Greg Chapman, chief executive of Empower Business Solutions and author of *The Four Pillars of Guaranteed Business Success*, says he often sees businesses make the mistake of falling into purely reactive planning.

"People will say this is what the market is going to do, so this is what we have to put up with," Chapman says. "Business owners should be taking a pro-active approach to what they want to achieve, what resources they will need to do it, and the cost and timeframe in which it can be achieved given."

Chapman makes the point that down-times can often bring opportunities as well as threats, but business will often need to act quickly to take advantage of them.

"If you think your sector is in for a tough time, have a think about the impact it will have on your competitors as well as your own business," Chapman says. "While the not-so-strong businesses in your sector are wringing their hands, there may be opportunities there for you to seize market share, build a marketing advantage or attract top staff to your business."

## **10. Be flexible and benchmark**

Planning documents are not “set and forget” tools for business success. Especially in uncertain times, to be useful a business plan should be constantly referred, to, reviewed and updated.

There is little point building multiple scenarios into a business plan if no effort is then made to periodically review key business indicators to see whether the best, worst or somewhere-in-between case forecast is coming true.

According to CPA Australia’s Ord, cashflow projections in particular require constant consideration and updating.

“In times like these people should be looking at their cashflow at least quarterly, but it is not unusual for businesses to do weekly cashflow planning depending on the level of the difficulty they are in,” Ord says.

Part of the purpose of business planning is to impose discipline on costs and performance, so any changes to plans or documents should only be made on the basis of solid information.

On the other hand, if a downturn is on the cards – and sometimes when things start to go, the decline can be rapid – a business plan can quickly become obsolete.

“The faster things are changing, the shorter gap there should be between budget review periods,” Ord says. “They should be an opportunity to get feedback from across the business, look at the figures and pick up on any signs of change when they are emerging, not when it is all too late.”

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