

Community Futures

Management Consultant in a Box

Strategic Business Planning

Purpose of this Document

The purpose of this document is to provide you with the process that a management consultant would go through with your business. Please note that the format of this plan is designed to help your company grow – its primary purpose is not to go to a bank for financing, but to identify issues and suggest action steps.

Management Consulting Process

Business Management Consultants look at 6 areas of your business:

1. Strategy

- a. State of the industry information
- b. State of the competition
- c. State of the company (capabilities and company culture)

2. Finance

- a. Financial systems and matters
- b. Status of debt and ability to borrow
- c. Ratios

3. Human Resources

- a. The right person in the right job
- b. Training, Performance Reviews, Recruitment & Retention
- c. Attitudes of the staff

4. Information Technology

- a. Communications
- b. Data transfer
- c. Info management systems

5. Operations

- a. Making the product
- b. Organizational structure around making the product

6. Marketing

- a. Competitors
- b. Sales
- c. Customers

SWOT Analysis

The first thing a Management Consultant will do is a SWOT analysis for each of these six management areas in your company – Strengths, Weaknesses, Opportunities, and Threats in your company.

Strengths = strengths inside your company and within your direct control

Weaknesses = weaknesses inside your company and within your direct control

Opportunities = opportunities from outside your company. Think about PESTE (Political, Economic, Social, Technological and Environmental opportunities outside of your company)

Threats = potential problems or issues from outside your company. Think about PESTE (Political, Economic, Social, Technological and Environmental threats outside of your company)

The SWOT analysis requires research: talking to a sample of customers, talking to management and employees in your company, and doing some research on industry trends (try Industry Association surveys, Statistics Canada, and media stories). The other requirement is to find out what a typical company in your sector looks like:

- Go to Statistics Canada and find your North American Industry Classification System (NAICS) Code at <http://www.statcan.gc.ca/subjects-sujets/standard-norme/naics-scian/2007/list-liste-eng.htm>
- Use Industry Canada's SME Benchmarking Tool: http://www.ic.gc.ca/eic/site/cis-sic.nsf/eng/h_00032.html to compare your company to the average small and medium size business in Canada by sector using NAICS codes and/or
- Use the Risk Management Association's Annual Statement Studies at <http://www.rmahq.org/RMA/RMAUniversity/ProductsandServices/RMABookstore/Downloads/StatementStudiesSIC/> to compare industry averages and/or
- Use Dun and Bradstreet Canada's database on industry averages <http://www.dnb.ca/>
- Visit Statistics Canada's database of Financial Performance Indicators for Canadian Companies <http://www.statcan.gc.ca/dli-ild/data-donnees/ftp/fpicb-ipfec-eng.htm>

When gathering information for a SWOT analysis you and the Management Consultant are simply looking for facts and data.

Strategy

Identifying and analyzing your company's strategy includes looking at industry information, the state of the competition and the state of the company (capabilities and company culture). Questions to ask include:

Strengths

What does the company do well? What unique resources does the company have? What do others see as company strengths? What does the company do better than anyone else? What lowest cost resources does the company have access to? Does your company have any new and/or innovative product or service? Does your company have any patents or copy right? Is there favourable access to any distribution channels compared to the competition? Are there new products or services the company could offer?

Weaknesses

What could be improved? What are others likely to see as a weakness? Is the location of the business a disadvantage? Are the products or services undifferentiated from the competition? Are the goods and/or services of poor quality? Does the company have a poor reputation amongst customers? Does the company have limited resources and staff? Does the company have cash to fund research and development? How can your company compete against other larger companies (e.g. a particular expertise or piece of equipment, a strategic alliance with other companies)?

Opportunities

What good opportunities are open to the company? What trends could the company take advantage of? Are there changes in government policy that could create an opportunity? Are there changes in social patterns, population profiles, lifestyle that could create an opportunity? Is there a new developing market for the product/service? Are there any "attractive adjacencies" where company technology or expertise could be put to a new use? Is there an opportunity to buy or merge with another business? Are there other market segments that could be approached? Are there international opportunities? Can an ineffective competitor be forced out of a market? Is there an unfilled customer need? Are there new technologies to take advantage of? Is there a change of regulations that would create an opportunity? Are there changes in markets that could create an opportunity?

Threats

What can make this business obsolete and what can replace it? What trends could harm this company? Are the required specifications for the company's products or services changing? Is changing technology changing the company's position? Do any competitors have new, innovative products and/or services? Are there any shifts in customer's needs that would take away from the company's product offering? Is there an emergence of substitute products? Are there trade barriers that would prevent international business? Are there economic pressures on the horizon that could threaten business? Are there any new regulations that would constitute a threat? Are competitors getting stronger?

Examples of facts coming out of a SWOT on Company Strategy:

- In recent years, the company has received over 60% of its revenues from a single customer in the Pulp and Paper industry.
- There have been slower capital expenditures in the industry over the past 8 months.
- Over the past 6 months, our company was unable to bid on any contracts coming out of the Oil Sands.

Finance

The next main area of your business that a management consultant will look at is your finances. This includes your financial systems, status of debt and ability to borrow, and financial ratios. You will need to get out your financial statements and you will need to know how to read and interpret them. Questions to ask when doing a SWOT analysis on finances are as follows:

Strengths

What are the company's assets and what are they worth? Are sales increasing? Is cost of production decreasing? What are the key determinates of profitability in your industry?

Weaknesses

Does the company have a high cost structure? Does the company have a high cost of production? Is there bad debt or cash flow problems? Where does the company have fewer resources than other companies? Are some costs (e.g. energy, labour) increasing at a faster rate than others? Will you have to spend money replacing or maintaining infrastructure or equipment in the next few years?

Opportunities

Is there new technology that could cut costs of production? Are there opportunities to outsource?

Threats

What are the issues with the highest impact on this industry: currency issues (e.g. value of Canadian dollar), over or under capacity, energy costs, transportation costs, raw materials cost, difficulty accessing capital, lack of skilled workers, new technology, competition from overseas, CO2 emissions and other environmental concerns, lack of efficiency, others? Are there price wars in the marketplace? Are there any new tax burdens in the foreseeable future? Is there anything on the horizon that could lead to either increased costs, fewer sales, or reduction of market share? What is happening to interest rates? What is happening to the value of the Canadian dollar?

The key ratios and information that a management consultant is interested in are listed below. In general, your business will be compared to others in your industry to assess whether your business is doing well or poorly.

General	Revenues, Expenses, Profit
Inventory Issues	<p>Inventory Turnover = $\text{Cost of Goods Sold}/\text{Inventory}$ (i.e. 6X = On average the business turns inventory over 6 times per year)</p> <p>Days in Inventory = $365/\text{Inventory Turnover}$ (i.e. 61 days = On average the business turns inventory over every 61 days.)</p>
Overdue Accounts Issues	<p>Accounts Receivable Turnover = $\text{Sales}/\text{Accounts Receivable}$ (i.e. 9X = on average the business collects accounts receivable 9X/year)</p> <p>Collection Period = $365 \text{ days}/\text{Accounts Receivable turnover}$ (i.e. 41 days = on average the business collects accounts receivable every 41 days)</p>
Financial Health Issues: Liquidity	<p>Acid Test (Quick Ratio) = $(\text{Cash} + \text{Accounts Receivable})/\text{Current Liabilities}$ (i.e. 1.5 = the business has \$1.50 in current assets to pay every dollar in current liabilities)</p> <p>Gross Profit Margin = $\text{Gross Profit}/\text{Sales}$ (i.e. 35% = for every dollar of sales the business generates, it makes \$.35 at the gross profit level)</p> <p>Net Profit Margin = $\text{Net Profit}/\text{Sales}$ (i.e. 3% = for every dollar of sales the business generates, it makes \$.03 at the net profit level)</p>
Financial Health Issues: Profitability	<p>Return on Assets = $\text{Net Income}/\text{Total Assets}$</p> <p>Shareholder return on equity = $\text{Net Income}/\text{Shareholders Equity}$</p>

Example of facts coming out of a SWOT Analysis on company Finances:

- Our two biggest customers are not paying accounts receivable for 4 months.
- Interest rates are expected to increase over the next year.

Human Resources

The third area a management consultant will look at is Human Resources: ensuring the right person is in the right job; training, performance reviews, recruitment and retention; and attitudes of the staff. You will need to get out your organizational chart.

Questions to ask in doing the SWOT analysis of Human Resources are as follows:

Strengths

Do employees tend to stay with your company for a long time? Can you attract well trained workers to your company? Do you offer a supportive work environment? Do people like working for your company? Can you offer competitive benefits? If you can't pay competitive wages, can you offer other incentives like flexibility? Do you provide high quality training for employees?

Weaknesses

What kind of staff turnover rate do you have? How much money can you allocate to professional development and training? Can you pay competitive wages? Do employees complain about working at your company? What is your safety record? What is your absentee rate?

Opportunities

Are there opportunities to recruit young people, women, aboriginals, or immigrants to work in your company? Are there good local training opportunities for people in your industry?

Threats

Do other industries pay better wages than your industry?

Example of facts coming out of a SWOT Analysis on company HR:

- The oil patch is paying workers \$10/hr more than we can pay.
- Our last job ad went unanswered.
- We have had 3 major work place accidents last quarter with one fatality.
- Employees in our company, on average, stay for 10 years – much higher than the Canadian average.

Information Technology

The fourth area of interest to a management consultant is Information Technology including communications, data transfer, and information management systems.

Questions to ask when doing a SWOT analysis in this area are as follows:

Strengths

Are your employees well trained and effective in using technology? Do they have the technology they need?

Weaknesses

Are your company's IT systems old and/or obsolete? Is there a risk of losing important data? Is data being reported accurately?

Opportunities

Is there new technology being developed that could assist your company?

Threats

Are there any new regulations that might impact your IT requirements?

Example of a fact coming out of a SWOT Analysis on company Information Technology:

- We upgraded our IT system in 2010 and it is state of the art.
- Our broadband service is unreliable and expensive.

Operations

The fifth area a management consultant will look at is Operations including making the product and the organizational structure around making the product. Key questions to ask when doing the SWOT analysis around Operations are as follows:

Strengths

What advantages does your company have? What are the advantages of your quality processes and procedures? Is the location of your company's business an advantage? What are the cost advantages from proprietary know how? Is there exclusive access to any resources? What makes your operations efficient? Do you have a way to encourage employees to provide innovative ideas around operations?

Weaknesses

Is there a lack of patent or copy right protection? Does the company have a lack of access to resources? Does the company have lack of access to key distribution channels? Is the company location a problem?

Opportunities

Is there new technology that could improve operations?

Threats

What is happening with government regulation (i.e. safety)? Are access to supplies secure?

Example of a fact coming out of a SWOT Analysis on company Operations:

- We are the most efficient producer of widgets in western Canada.
- The new process we introduced in 2009 still has glitches that slow down production.

Marketing

The sixth area a management consultant is interested in is Marketing, including your competitors, sales, and customers. Map your customers by location, value of sales, and other important characteristics.

Questions to ask about marketing include the following:

Strengths

How is your product typically marketed (e.g. tradeshow, manufacturer's reps, company sales force, internet)? What do customers care about more: price, ability to make a product to spec, ability to make a product on time, other? What is your special marketing expertise? What is the strength of the company's brand name? Why do customers like this company? What drives demand for the product?

Weaknesses

Is there a lack of marketing expertise? Has the company reputation been damaged? Is the brand name weak? What are customer objections during the sales process? What are the competitors saying about the company?

Opportunities

Are there opportunities in social networking?

Threats

What new activities is the competition doing?

Example of a fact coming out of a SWOT Analysis on company Marketing:

- Our company was featured in Alberta Venture two months ago.
- The most important thing to our customers is our ability to make our products to specification.
- The new product we introduced in 2010 is not selling up to our expectations.

Critical Issues Analysis

The SWOT Analysis provides you and the management consultant with a list of facts and data about your company. How do you decide what is important and what needs to be acted on?

The next step a management consultant will do is called a Critical Issues Analysis. This involves determining 3 things:

- 1. The Problem(s)** – you usually find this by looking at weaknesses and threats. Try to focus on what the problem is.
- 2. The Symptoms** – this is how the problem is expressed. This will come out of the SWOT analysis.
- 3. The Root Causes** – Keep asking “why”. What caused The Problem? The key thing is to follow a logical process. You are trying to lay the foundations for action in a way that everyone in your company can understand.

For example:

The Problem: Our company isn't diversified in terms of products/services or in terms of customers – our eggs are in one basket. This feels risky given the general economic turmoil out there.

The Symptoms: 60% of our revenue comes from one customer. 85% of our revenue comes from one product.

The Potential Causes:

1. Is it because we do a poor job of marketing? If the answer to this question is “yes”, ask why. Is it because we don't have a marketing plan? Is it because we don't have someone to do the marketing? Keep asking “why” until you really understand the root cause(s) of the problem.
2. Is it because we don't have the capacity to do more? Why? Because we are hesitant to take on new employees. Why?
3. Is it because we are a niche business and there simply aren't very many customers for our products/services? Why?
4. Is it because we only have one really good product? Why?

The Problem: Our company shows inconsistent revenue generation

Symptoms: Revenue can vary 40% between quarters. We are constantly laying off and re-hiring employees. Suppliers have cut us off because some quarters we can't pay our bills.

The Potential Causes:

1. Is it because our main customer is the Oil and Gas sector and it goes through boom and bust cycles as commodity prices crash and build. Why? The oil and gas sector is our main customer because that's where the company founder had contacts.
2. Is it because we do a poor job of marketing? Why?
3. Is it because we can't deliver product? Why? We need more operating capital.

Vertical Causal Analysis

A Management Consultant will likely do a final check in order to prioritize the critical issues. This is called a vertical causal analysis and this is how it is done:

- Make a table.
- In one column, list all the root causes that you arrived at by asking “why”.
- In the next column, write down all the critical issues that are addressed by the root causes.
- Rate the priority of the root causes – those that are associated with multiple issues are the big ones that you need to deal with.
- List the top six root causes.

What Needs to be Addressed Statements

This is where you and the management consultant figure out what needs to be addressed. The “What Needs to be Addressed Statements” fall out of the Vertical Causal Analysis.

Each statement will have 3 elements:

- **The area to be addressed.** For example: the company needs to address the serious staff morale issues in the parts division.
- **The implication if no action is taken.** For example: or else productivity targets will not be met.
- **The result if action is taken.** For example: if addressed the division has an opportunity to regain customers and industry respect lost due to these issues.

Action

Finally, after all that logic involved in this process, you can move on to developing action steps. Everyone always wants to leap to action first, without really thinking about why something needs to be done but the logic is crucial, especially when you must sell the plan to your company employees. Here’s an example of a “what needs to be addressed statement” along with action steps.

What Needs to be Addressed Statement

We need to diversify our customer base and our product and service line. If we don’t, we will continue to have inconsistent revenue generation and be subject to the whims of our main customers. If we do this, we will be able to count on even cash flow and will be able to grow our company in a sustainable way. In order to accomplish this, we will:

- 1) Add services.** The company could grow by adding services as opposed to selling more products. As significant capacity expansion is forecasted for the industry, and as our Company needs to work with major contractors, a program should be developed to identify those General Contractors who will be involved in industry plant capacity expansion. The unique services and products offered by our Company have the potential for being sold around the world. Research markets for the services we offer now, here and overseas. Identify areas that we need to improve. Figure out how to export services.
- 2) Develop a Marketing Plan.** Create a list of events that are happening in key industries that your company works in. Key venues for communicating messages to an industrial audience include: Direct mail campaigns, Industry Association events, Trade Shows, Trade Magazine Advertisements, Web site. For a first year’s campaign to introduce a new product/service, it may cost 15% of revenues. Second year expenses could be 10% of revenues, and third year marketing expenses could be 5% of revenues. Success stories should specifically talk about how our Company helped to solve customer’s problems. Material can be utilized multiple times, such as: articles for direct mail campaigns, magazine ads, web site, news releases, and magazines, as well as material for speaking engagements.

3) Develop a Sales Plan and increase sales. A contact database should be developed and maintained in order to keep the communications flowing between company and customers, and in order to measure potential business in the sales funnel in terms of % probability, timing, and work required to obtain business. Company sales reps ideally should have a technical background and the capability to develop and manage relationships with third party companies who will be positioning the company's products and services in other countries. Agents in various countries may be contracted to help in the sales process. Due to the complex nature of the solutions, the agent's prime role will be to find qualified leads, and to pass these leads onto our sales reps for follow up and for close of business. Processes need to be developed to help recruit, hire, train, motivate, and measure the performance of these independent agents. As our Company needs to work with major contractors, a program should be developed to identify those General Contractors who will be involved in industry plant capacity expansion. Relationships with these General Contractors need to be developed in order to position Manufacturing Company as a credible supplier of services and products.

4) Build the management structure of the company for growth. The Management structure for the company needs to be developed in order to prepare for future growth. Review the organizational chart to determine which individuals have formal responsibility for each of the main management functions. Gaps in management expertise should be identified, and plans should be developed to complete the management structure, over the next three to five year timeframe, as the company grows to 5 times its current size. Initially, the company may have individuals that are responsible for multiple functions, and as the company grows, some of these functions should be delegated to others.

5) Outsourcing. As some company functions are planned to be outsourced, consideration should be given as to how to formally manage third party resources. Plans should include how to recruit, hire, train, motivate and measure third parties.

6) Develop HR Policies and Procedures. Currently, there are 6 employees managing a forecasted \$2 million dollars of sales. Given the desire to grow the business to \$8 million within 3 years, and utilizing the same productivity numbers, there will be 24 employees within 3 years time. Consideration needs to be given as to the roles of each individual, and how they will be integrated into the current business model. This will require a more formal HR structure the company currently has in place. Our company needs to develop a company HR Policy Manual.