Strategic Planning, Budgeting, and Marketing in Small Business Enterprises provides guidelines that enable small businesses not only to survive the current economic and financial ordeal, but also to strengthen their operations for the future.

Strategic Planning, Budgeting and Marketing in Small Business Enterprises: A Kit for Survival in an Economic and Financial Crisis

The Little Book on

STRATEGIC PLANNING

BUDGETING AND MARKETING

IN

SMALL BUSINESS ENTERPRISES

A kit for survival in an economic and financial crisis

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THE ANATOMY OF A BUSINESS FAILURE

Introduction

The literature on business failure is replete with reasons for, and statistics about, business failure. The statistics on the magnitude of business failure vary partly because of the difficulty of obtaining accurate facts on the matter. Business closures and business failures are often used as synonymous terms, but this can be misleading since many businesses close for reasons other than failure. It is true that a large percentage of small businesses fail within one to three years of operation. It is also true that the failure rate among small businesses is much larger than that among large businesses.

This chapter provides some insight into the reasons for business failure. The material is presented in the form of a story for the purpose of vividness and impact. If small business owners and managers know why small businesses fail, they will be in a better position to prevent failure in their own businesses. The story is completely fictional, and any similarity with any actual business failure is purely accidental.

The Birth of a Business Idea

Fred wanted to start a business of his own because, he believed, owning a business is the quickest and surest way to become wealthy. He prepared a list of possible businesses that he might establish in his community. He looked around the community and noticed that there were only two restaurants and that they seemed to be doing quite well. The decision was made; Fred would open a new restaurant. He admitted that he was not quite sure of the kind of restaurant that he would operate; but that could come after he noticed what meals most of his patrons were ordering. That seemed reasonable enough to Fred.

Getting a Partner and Raising the Funds

From youth, Fred was a popular guy among his peers. Somehow, he had the ability to influence people. He had managed to save some money over the years. He approached his friend Nick with his idea of opening a restaurant. Fortunately, Nick had just inherited a fair amount of money and wanted to put a part of it in some kind of business. Fred had no trouble at all convincing Nick to become a partner in the business.

Together, Fred and Nick had sufficient money to start the restaurant. They were neighbours, attended the same elementary and high schools, and were best bodies in college. Certainly, they thought, there was no need to draw up any kind of agreement. They had known each other too well and for too long. Neither Fred nor Nick had any experience in the restaurant business, except that Fred had a part-time job as a dishwasher in a small restaurant for about three weeks when he was in high school.

Furnishing the Restaurant

Fred and Nick went to a used furniture and appliance store that sold restaurant equipment and furniture. They carefully selected what they needed, determined the price, and paid a down payment. Stove, refrigerator, tables, chairs, pots and pans, plates, dishes, knives, forks, etc. were all available at that used store. They thought that it was a stroke of luck that they went into that particular store. They had not yet chosen a place for the restaurant.

Choosing the Site

Shortly after their visit to the used furniture store, Nick was driving to work when he noticed a "FOR RENT" sign on a building. He told Fred about it, and that very afternoon, they arranged to see it. It was ideal, they thought. They would have to do some minor renovations and put up some decorations to make it look like a restaurant. Nick and Fred were both able to do the renovations and they asked Nick's sister to help out with the decorations. The restaurant was ready to receive the furnishings. A sign painter was contracted, and **Fred and Nick's Restaurant** was soon to be a reality. In addition to the sign over the main entrance, there was a sign on the premises that read, OPENING SOON.

Preparation and Opening

All the cleaning, painting, and necessary layout having been done, Fred hired a chef while Nick hired three waitresses and a kitchen helper. It was time for the opening. Friends and relatives were invited, and ***Fred & Nick*** (as the restaurant was popularly called) opened its doors for business.

Apparent Success

During the first few months of operation, everything *seemed* to be going well. Patrons commented favourably on the food and on the service. There was usually a satisfactory crowd, especially during lunchtime. Fred managed the restaurant while Nick remained at his job and helped out in the evenings. Business was *apparently* going so well that Nick contemplated quitting his job to work full-time at the restaurant.

Complaints

A few patrons were heard to complain that it was difficult to get parking at the restaurant; that public transportation did not pass close enough to the restaurant; and that frequently, they had no idea of what would be served until they ordered and were told that it was not available. One couple and some friends thought that ***Fred & Nick*** was an Italian restaurant. On more than one occasion, waitresses had to apologize to patrons for not having an item that was on the menu. Trouble was looming. Was failure raising its ugly head?

The Closure

It has been almost 18 months since ***Fred & Nick*** opened for business. The partners had no idea they were losing money until they sat down to figure out whether the business was in a position to pay Nick to work full-time. They were surprised. Yes, there was money in the account, but not as much as they expected. They had noticed that the balance was shrinking but they attributed it to expenditures on items that the restaurant needed to operate. It was clear that Nick could not quit his job. Fred blamed Nick for not being sufficiently active in the management of the business. Nick explained that he was under the impression that Fred was to manage the business.

Patronage fell off, and Fred had no idea why this was happening. It soon became increasingly difficult for him to meet his payroll. The chef quit after Fred was unable to pay him on time on two successive occasions. A new and less expensive chef was hired, but the quality of food deteriorated, and ***Fred & Nick*** lost yet more customers.

Fred and Nick met to decide on a course of action. The rent was due and wages had to be paid. The partners had to contribute more cash to meet these expenses. Can they endure this haemorrhage? Their customer base had dwindled, and the business that showed so much promise could no longer survive. Fred and Nick decided to close the business. It had failed.

What Went Wrong?

We can point out a number of factors that contributed to the failure of ***Fred & Nick***. Let us enumerate them.

1. Misconception of Business Ownership

Fred's belief that owning a business was a get-rich-quick scheme was erroneous. Of course, many small businesses proved to be successful in creating wealth for their owners; but it entails a tremendous amount of work and sacrifice. Fred's reason for wanting to go into business was questionable.

2. Uncertainty Regarding the Type of Business

Fred decided that he wanted to open a restaurant, but he didn't even know what type. There are many different kinds of restaurants with different characteristics and different requirements. Failure to specify the kind of restaurant caused confusion later in the minds of patrons and resulted in loss of business.

3. Lack of a Feasibility Study

A feasibility study would have forced the partners into determining such crucial issues as location, parking, management and other determining factors of viability.

4. Lack of a Partnership Agreement

There is no concrete evidence that the lack of a partnership agreement caused the failure of this business. However, it resulted in misunderstanding between the partners, which *may* have contributed to the demise of the business.

5. Lack of Relevant Experience

Fred had neither experience nor training in running a restaurant. There was no accounting, and the partners were unaware of the financial condition of the business.

6. Lack of Marketing

A large part of the failure of this business was lack of marketing initiatives. Effective marketing could have addressed the complaints and prevented the loss of customers. ***Fred & Nick*** did not know their customers' wants and needs and therefore could not satisfy them.

7. Lack of a Business Plan

If one factor more than any other could be identified as a main reason for the failure of ***Fred & Nick***, it would have to be a lack of planning, including budgeting. There is no indication that this business knew where it wanted to go and how it would get there. The business lost direction and control.

The factors that we have identified above constitute a recipe for business failure.

Summary

1. The failure rate among small businesses is relatively high. Business failures and business closures are often not one and the same thing.

2. Businesses fail for a variety of reasons including, misconception of business ownership, uncertainty of the kind of business, lack of a feasibility study, lack of a partnership agreement, lack of relevant experience, lack of marketing initiatives, lack of planning and budgeting.

3. Perhaps the most common reason for business failure is lack of planning and budgeting.

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STRATEGIC PLANNING PROCESS

Introduction

In the previous chapter, we introduced the concept of strategic planning and discussed its advantages to small business enterprises. We did not, however, describe or outline the strategic planning process. That is our main task in this chapter. Here we discuss the main parts of a typical strategic plan of a small business enterprise. First, we review the concept of strategic planning as it applies to small businesses. Then we present the essential components of a strategic plan.

As indicated earlier, a strategic business plan provides a guide to the managers of the business—a guide that can be used to assess the organization's current situation and to design effective strategies for the future. In addition to outlining the evaluation procedure, the plan will also contain the controls necessary to minimize any negative impact on performance.

A good strategic plan indicates where the business is headed and how it will get there. It is in this sense that we refer to a strategic plan as a road map. It contains specific objectives against which the organization's actual performance can be judged. It states financial, marketing, and operating strategies and the actions that will be taken to accomplish established objectives. Although many small business enterprises now develop a separate marketing plan document, the strategic plan includes marketing strategies.

The board of directors and top managers of small business enterprises go through the process of formulating the organization's mission, establishing broad goals and specific objectives, analyzing the organization's strengths and weaknesses, identifying opportunities and threats, and designing strategies to achieve desired objectives. This process is what we defined earlier as strategic planning, and the document that results from this process is the strategic business plan.

Traditionally, in most small businesses, planning consisted essentially of preparing an annual budget and forecasting the organization's balance sheet and income statement for the next few years. As we have seen, strategic planning involves much more than that. It uses information derived from environmental scanning to determine where managers should lead the organization. Strategic planning helps managers to decide on what risks to take as they investigate potential returns from various strategies.

Identifying the Business

Before we proceed with the discussion of strategic planning, we should stress an important element in strategic planning. Small business owners and managers should know what business they are in. There is ample evidence to conclude that many business failures can be traced to the fact that the business managers did not know exactly what business they were in. For example, the author once worked with a client who claimed that he was in the trucking business. On closer examination, it was determined that he was really in the transportation business. It was then clear to see that his competitors were not just other trucking companies, but also railroad freight carriers and airplanes that also carry cargo.

Failure to properly identity the business, then, may obscure your view of your competitors. In addition, you may not be able to properly identify your customers properly, and may therefore not be able to offer the goods and services that satisfy their needs and wants. The tactics you use to reach your assumed customers may be inappropriate to reach your real customers. William M. Luther, in his book entitled, *The Marketing Plan*, describes how to determine the business you are in. According to Luther, "If you have the same customers, the same competitors, and similar functions, styles, features, and benefits and if a change in the marketing strategy of one affects the strategy of the others, then you're all in the same business."

Components of a Strategic Plan

No two strategic plans are identical, as small businesses tend to use planning processes that are appropriate to their particular circumstances. For example, a small auto repair company will have a different organizational structure from that of a large retail company, and their plans would tend to reflect this difference. Essentially however, a strategic plan has six parts:

1. Mission and vision statement
2. Goals and objectives
3. Situational analysis
4. SWOT analysis
5. Action plans
6. Goals and schedules

The mission statement, objectives and situation analysis deal with the organization's current position. The SWOT (strengths, weaknesses, opportunities and threats) analysis gives some indication as to the organization's potential future condition. Action plans are designed to lead the organization to its desired future condition, and goals and schedules determine *what* will be achieved and *when* it will be achieved.

Mission Statement

A business, whether large or small, should have a clearly defined mission; otherwise, it will simply be moving about aimlessly. The mission defines the business, so to speak. It tells what business the enterprise is in and states the main purpose for which the business exists. A mission statement should be an integral part of any strategic plan.

A bank that emphasizes superior service to selected clients states its mission as follows:

> ***...mission is to become and remain the "Bank of Choice" for professionals, businesses, individuals and other selected***

> ***customers; providing financial products and services to those who value a superior level of personalized banking tailored to individual needs.***

Note that this mission statement identifies the intended customers ("professionals, businesses, etc. who value a superior level of personalized banking"), and the bank's products (financial products and services). This mission statement attempts to distinguish this particular bank from others of its type.

Another bank states its mission as follows:

> ***...Bank in...strives to maintain the trust and confidence of the individuals and businesses in the ...area and beyond, while serving their financial needs in a cost effective and profitable manner.***

Note again that this mission statement defines the fundamental purpose that sets this bank apart from others of its type. This mission statement identifies the bank's target customers and also specifies the geographical area in which it operates. The bank's reason for existence is quite clear.

The same can be said of the mission statements of a moving company and an insurance company below.

Moving Company:

> ***Our mission at ... Moving, Inc. is to assist families, individuals, and businesses with their move in a manner that relieves them of the worry often associated with moving.***

Insurance Company:

> ***Our mission is to provide competitive automobile insurance products and quality service to our agents and customers.***

Of course, many small businesses include a great deal more information in their mission statements. At a conference some years ago, one presenter asserts that an organization's mission statement should include the following *essential* points. It should:

1. State precisely the business that the organization is in; describe businesses that the organization does not want to be in.

2. Describe what distinguishes the organization from its competitors.

3. Establish clearly the key values of the organization to which all employees must adhere.

4. Indicate the values reflected in the organization's corporate culture and realistically expressed by senior management.

5. Provide guidelines that allow for flexibility in response to internal and external change.

6. Demonstrate an understanding of market opportunities and how the organization will respond.

7. Affirm the organization's profit orientation.

Instead of crowding the mission statement with all this detail, strategic planners seem to prefer to establish a narrower and more focussed mission as evidenced by the examples presented above. Then the other *essential points* are taken care of in the organization's philosophy and objectives.

Vision

A small business enterprise ought to have a vision regarding its mission before it can effectively determine the direction in which it is headed. The vision states management's ideal view of the organization when it has accomplished its objectives. It articulates priorities and key values in serving customers, and it identifies target markets and the organization's preferred position in those markets.

The company's board of directors and top management have the responsibility for articulating the organization's vision and for inspiring all employees to embrace the vision. Without that type of support and involvement, the strategic planning process is destined to certain failure.

A small business enterprise expresses its vision thus:

> ***We will increase our loyal customer base by being known as the company that consistently exceeds customer expectations.***

Notice the statement of the organization's desired position: "...as the company that consistently exceeds customer expectations."

The preferred position of a small insurance company is stated in its vision statement:

> ***We will be a people-oriented insurance company that is dedicated to providing personal lines and business insurance products that offer quality protection at competitive rates. We will be seen as a team of knowledgeable insurance people working for, and on behalf of, its clients.***

Goals and objectives

A goal is a general statement of what is to be accomplished. It points to a desired non-quantitative outcome of a certain event or activity without stating any specific time frame. For example, a statement such as "an increase in the volume of business" is a goal since it does not specify by how much business should be increased and there is no time schedule as to when the increased business volume is to be accomplished. A small business enterprise that offers a wide range of consumer products and services might have the following goals:

- ***Clients:*** Always to provide the best possible and most appropriate consumer products and services to all our clients, and to always respect their right to know and be informed; and always to treat *all* our clients with respect.

- ***Employees:*** To be genuinely interested in our employees' welfare and personal development, to help them to share in the company's success, which they make possible, and to help them to gain a sense of satisfaction and accomplishment from their work.

- ***Market share:*** To aggressively increase our market share, but without jeopardizing the quality of our service.

- ***Field of Interest:*** To recognize that our main field of interest is the sale of consumer products and services. We will enter new and related fields only when our ideas, together with our technical and marketing skills, assure that we can make a needed and profitable contribution to the field.

- ***Profitability:*** To achieve sufficient returns to finance the company's growth, to provide our investors with a reasonable return on their investment, and to provide adequate financial resources to achieve our other goals and objectives.

- ***Management:*** To foster initiative and creativity by allowing our managers sufficient freedom of action to pursue well-defined and approved objectives.

- ***Social Responsibility:*** To honour our obligation to the community by supporting educational, cultural, and social events in the community. We will be widely known as an excellent corporate citizen.

Objectives are the expected results of planned activity. They are statements of what is to be accomplished quantitatively if possible, with a time frame within which the results are expected. The accomplishment of goals and objectives should move the organization closer to the fulfilment of its mission.

The following could very well represent the objectives of a new florist.

Institutional: By the end of the first year, the Company will be well on its way to being recognized as an important and respected provider of all kinds of flowers for all occasions.

Market: By the end of the second year, we will have established such a market presence that we will be effectively increasing our market share. We will be a major player in the market, claiming a market share of no less than 10 per cent.

Services: By the end of the third year, we will have increased our product/service offering by at least 20 per cent.

Revenues: Our total revenue will increase by an average of 10 per cent over the first five years of operation, reaching a figure of $2,500,000 at the end of the fifth year.

Goals and objectives can be classified into three different time horizons: short-term, intermediate-term, and long-term. **Short-term goals** are those that can be accomplished in less than one year. These goals are given high priority because of their impact on current operations. Without such goals, the future viability of the operation can be compromised. An example of a short-term goal for a small manufacturer of furniture is to ensure the availability of sufficient cash to maintain satisfactory inventory levels.

Intermediate-term goals usually have a time horizon of 1 to 3 years. For a used-car dealer, intermediate-term goals may include a shift in emphasis from cheaper to more expensive used cars, or an increase in used car inventory.

Long-term goals are those that have a time horizon beyond three years. Examples of long-term goals include new market penetration, the introduction of new products and services, or the acquisition of new premises.

Establishing goals and objectives is an important managerial exercise. It allows managers to practice management by objectives (MBO) which has turned out to be a rather effective management strategy. It compels managers to recognize the inherent conflicts between certain goals, and helps them decide on appropriate trade-offs. For example, internal sources of funds will be reduced by high payments of dividends to shareholders, and high profit activities may threaten the safety of the organization. Moreover, establishing objectives enables the conduct of effective performance appraisals. Finally, when the goals and objectives of a business are articulated and known within the organization, overall performance tends to improve.

A Note on Setting *SMARTER* Objectives

Effective objectives have seven characteristics. They are specific, measurable, acceptable, realistic, time-framed, exciting, and rewarding. These characteristics result in the acronym "SMARTER"; so it is frequently said that objectives should be *smarter.* Let us examine each of these characteristics.

S*pecific:* Your objectives should be specific. They should be concrete rather than vague or general. They should state clearly and exactly what you want to achieve. For example, it's difficult for an employee to pursue the objective to "word harder". It is easier to recognize "Prepare a report."

M*easurable*: To manage objective to successful completion, you have to be able to measure what the objectives are. An objective to: "be more friendly to customers" is difficult to measure. How does one measure the attribute "friendliness"? A more measurable objective would be: "Greet each customer with a smile." If possible, objectives should be quantifiable. A sales person's objective of "contacting leads" is much less effective than setting the objective of contacting "a minimum of four" clients daily.

A*cceptable:* Objectives should be acceptable; that is, the end user, be it a customer, upper management, or subordinates in the organization, must agree that the objectives are desirable. If you involve your employees in setting objectives so they can change their other commitments or modify the objectives, they are much more likely to accept pursuit of the objectives as well. This implies that objectives should be achievable. Objectives that are not achievable are unlikely to be acceptable.

R*ealistic*: Objectives must be realistic. Even if an employee accepts responsibility to pursue an objective that is specific and measurable, the objective will not be useful if, for example, it is to increase customer base by 75% in four hours.

T*ime-framed*: Setting an objective without a time frame may not be very effective. You need a clear time frame for the objective. You need to set deadlines that are attainable. Stating that you want to increase your revenue by 15% is much less effective than stating that you want to increase your revenue by 15% by the end of the next fiscal year.

E*xciting:* Objectives should be exciting and engaging so as to capture the enthusiasm of the performer.

R*ewarding:* Finally, objectives should be rewarding. The individual performing the task should be aware of the reward associated with the successful completion of the objective. This could serve to motivate action toward the accomplishment of the objective.

Situational Analysis

The objective of the situational analysis is to provide information to management about the present condition of the organization so that they can make better strategic decisions. It is tempting to think that the managers of a small business enterprise already know the present condition of the business, but experience has shown repeatedly that such is not the case. This author has encountered many cases where managers of small businesses were not even aware of the financial condition of their businesses. Without this knowledge, it is impossible to plan strategically to accomplish established objectives. The information required to conduct a situational analysis includes:

- Data on financial condition
- Product or service offering
- Customer profile
- Operational environment
- Skills inventory

Let us discuss each of these factors in turn.

Financial Condition A balance sheet is a statement of the assets and liabilities of an economic unit such as a firm. An asset is anything that is owned by the unit. A liability is anything owed by the unit. A liability is a debt. The difference between the total assets and the total liabilities is called capital or owner's equity. Thus, a balance sheet can be defined as a statement of assets, liabilities, and owner's equity or capital.

Balance sheet analysis provides a considerable amount of information about the condition of a small business enterprise. Profitability ratios such as return on equity (ROE) or return on investment (ROI) help managers to achieve a better understanding of the organization's profitability. Historical data on these variables allow managers to observe trends and compare present with past performance. By comparing these profitability ratios with similar ratios in like businesses, managers will also be able to compare their company's performance in these areas with the performance of other companies.

Liquidity information such as **working capital** (the excess of current assets over current liabilities) and the **current ratio** (current assets divided by current liabilities) can be used to give information about the financial strength of the organization. Liquidity is of particular interest from the point of view of meeting immediate and short-term financial obligations.

Product/Service Offering The small business enterprise should prepare a schedule or inventory of all products and services offered. It should list, for example, the various types of merchandise and services that it offers, extended opening hours (if applicable), training and credit counselling services (if applicable). Also included in the schedule should be the target market for each product or service, current market share, and pricing policy. Those responsible for strategic planning should be able to answer the following question: "How does our offering compare with the offerings of our competitors?"

Customer Profile Strategic planners in small business organizations need to know who their customers are. Strategic managers need information on their customers' income, age, education, employment, marital status, and number of children. This type of information will enable them to construct a profile of a *typical* customer. Customer profile is invaluable for the success of strategic planning and especially so for strategic marketing.

Imagine what a small business manager could do with information such as:

- Who buys and uses the product
- What they buy
- Where they get information about the product
- Where they buy
- When they buy
- What makes them prefer one product to another
- How sensitive they are to advertisement and what types of advertising they respond positively to.

Operational Environment Small business enterprises do not operate in a vacuum. Strategic planning must consider the environmental factors that may have some impact upon the organization's operation. These environmental factors include economic, legal, and industry and demographic variables that must be considered in strategic planning. Relevant economic variables include growth in gross domestic product (GDP), forecasts of economic fluctuations, employment, inflation and interest rates. Legal variables include regulations and legislation such as tax changes, licenses or permit requirements that can influence the operation of the business. Industry variables include the degree of competition in the market, price trends within the industry, and the marketing activities of major competitors. Demographic variables include population shifts, age composition, and trends in family formation. These variables are summarized in Table 3.1.

Table 3.1 Economic, Legal, Industry, and Demographic Variables

Economic	**Legal**	**Industry**	**Demographic**
Growth in GDP	Tax changes	Competition	Population shifts
Forecasts of economic fluctuations	Licenses & permits	Price trends	Age composition
Employment	Restrictive legislation	Marketing activities	Trends in family formation
Inflation			
Interest rates			

Skills Inventory Strategic planners audit the present work force to gather information about the capabilities of present workers. Planners are able to use this information to estimate tentatively which openings can be filled by present employees. These audits result in *skills inventories* (if referring to non-management personnel) or *management inventories* (if referring to managers). These inventories reveal the range and depth of managerial, marketing, clerical, and administrative skills available. When implementing new strategies or replacing personnel, management can select individuals, knowing their skills and existing responsibilities and capabilities.

SWOT Analysis

The analysis of the organization's strategic strengths, weaknesses, opportunities, and threats (SWOT) is a crucial element in the strategic planning process. SWOT analysis forces managers to critically appraise the quality of specific individual's skills, the organization's products and services, marketing policies, and the company's past operating performance. The purpose of the SWOT analysis is to provide a basis for designing strategies that accentuate the organization's strengths, surmount its weaknesses, exploit opportunities, and foil threats.

Strengths Strength is anything that gives the business an advantage over its competitors. Sources of strengths include:

- Knowledgeable, loyal, and efficient employees
- Acquired image and reputation
- Sound financial position
- Convenient location
- Impressive premises

Managers of small business enterprises can use the strengths of their organizations to gain a competitive edge over their competitors. For example, they can use these strengths to good advantage in advertising and promotional activities. Strategic planning should specify how the organization will use its inherent strengths.

Weaknesses A weakness is a problem or an obstacle that can severely jeopardize the accomplishment of the organization's goals and objectives. Management must pay due attention to the weaknesses within the organization. Weak areas may need significant improvement or even restructuring. Weaknesses may be overt and may be recognized through low morale, high job turnover, lower than average productivity, and high absenteeism. But they may also be covert and may be uncovered only by customer survey.

Sources of weaknesses may include:

- Inefficient and disloyal employees
- Crummy image and deplorable reputation
- Weak financial position
- Incommodious location
- Unimpressive premises
- Poor customer service
- Weak pricing structure

Customer surveys may reveal weaknesses such as customer dissatisfaction with long waiting lines, required customer services that are not being delivered, discourteous employees, unsatisfactory complaint settlement, and exorbitant prices. It is management's responsibility to determine how to overcome these weaknesses that may involve product, human resources, and marketing changes.

Opportunities Strategic managers should create a prioritized list of external opportunities that will potentially provide a competitive advantage to the small business enterprise. A common example is cross-selling opportunities to existing customers. Another is establishing strategic alliances with other organizations. Lack of true entrepreneurial grit or absolute inertia may cause opportunities to slip by. The feasibility of exploiting any opportunity should be determined by a proper feasibility study.

Threats In addition to creating a prioritized list of external opportunities, strategic planning requires also the creation of a prioritized list of external threats confronting the small business organization. Such threats typically manifest themselves in the form of regulatory restrictions, competitive products available from other providers, a competitor's marketing strategy, poor relations with the media, and dramatic changes in local or global economic conditions. Essentially, each threat represents a lost opportunity in the form of customer attrition.

Having completed the SWOT analysis, management should refine the organization's goals and objectives by specifying precise numerical targets and performance measures encompassing all time frames. Typically, strategies take advantage of the organization's strengths and minimize the effects of weaknesses. In line with the new targets, managers now identify specific strategies that will achieve the desired results. Financial strategies address issues such as asset and liability volume, mix, and maturity, capital structure, pricing policies, and overall credit policy. Marketing strategies address product and service mix, market segment, and the optimal delivery systems.

Action Plans

As part of designing strategies, management identifies specific tactics and action plans that should help the organization achieve its desired targets. Regardless of individual decisions made, an action plan must possess at least three characteristics:

1. It must be customer driven
2. It must enhance the long-run profitability of the organization
3. It should *not* increase the organization's risk beyond acceptable levels and thereby endanger the organization's assets.

At this stage, management conducts "what-if" analysis by simulating possible outcomes from alternative strategies and actions.

Action plans may be broad or specific. A plan may specify that the small business enterprise will concentrate more on one line of products than on another to increase its overall revenue. Precise action plans might then focus on implementing a counter-cyclical advertising strategy whereby the organization intensifies its advertising and promotional activities when demand for its products is low, and reduces advertising activities when demand is high.

To reduce interest rate risk, for example, s small commercial bank might strategically place its financial assets between long-term and short-term financial instruments. The results from simulating balance sheet and income statement outcomes then reveal the trade-offs between alternative strategies and plans.

Goals and Schedules

After selecting specific action plans, management must establish a realistic time schedule for each objective. This ensures that employees who are responsible for implementing the strategies and actions understand their importance and concentrate their efforts accordingly. It also provides a meaningful way to evaluate results. In many instances, certain plans cannot be implemented before other plans are in place. Examples include efforts to enter new markets. Initially, promotional spots and specific product advertising introduce a product. Then line managers implement cross-selling strategies to improve market share.

Once action plans are underway, key employees are responsible for regularly monitoring performance to determine whether, and to what extent, the organization is progressing toward its objectives. If not, the organization has time to alter its tactics or change direction. It should thus be emphasized that strategic plans are dynamic rather than static. They should be constantly revised depending on customer acceptance and market conditions. Small business enterprises that succeed will be those that adapt best.

Summary

1. An important element in strategic planning is identifying the business the company is in. Having the same customers, the same competitors, and similar functions, styles, features and benefits, and being affected by the marketing strategy of other firms mean that you are in the same business.

2. A strategic plan has basically six parts: mission and vision statement, goals and objectives, situational analysis, SWOT analysis, action plans, and goals and schedules.

3. The mission of an organization states its reason for being. A mission statement should be an integral part of any strategic plan.

4. Goals and objectives are statements of desired results to be accomplished. Technically, goals are non-quantitative desired outcomes of activity with no specific time frame for accomplishment. On the other hand, objectives are quantitative and have specific time frame for the results to be achieved. Objectives should be SMARTER.

5. Situational analysis provides information about the present condition of the organization. A situational analysis requires data on the organization's financial condition, products offered, customer profile, operational environment, and skills inventory.

6. SWOT analysis is critical in strategic planning. SWOT analysis provides a basis for designing strategies that accentuate the organization's strengths, surmount its weaknesses, exploit opportunities, and foil threats.

7. An action plan must be customer-driven, it must enhance the long-run profitability of the organization, and it should *not* expose the organization to unacceptable levels of risk, and thus endanger the organization's assets.

8. Management must establish a realistic time schedule for each objective. Such a schedule provides a meaningful way to evaluate results.

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