How to Assess Your Planning Activities
Guide to Self Audit the Planning Activities in a Small Business

By BizMove Management Training Institute

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1. Introduction

Small businesses often fail because owners are unaware of the many elements that can prevent the business from growing and being successful. Often, small businesses are organized around the manager's specific area of expertise, such as marketing, accounting or production. This specialized expertise often prevents the business owner from recognizing problems that may arise in other parts of the business.

This guide will provide you, the small business entrepreneur, with the essentials for conducting a comprehensive search for existing or potential problems in your planning activities. This guide was designed with small businesses in mind and addresses their unique problems and opportunities.

The author has combined case evidence, logical procedures, expert advice and systematic thinking to create this planning assessment guide. This instrument is not exhaustive, i.e., the business owner/manager still must rely on personal judgment and past experience. However, it does provide a systematic framework to ensure that critical areas have been addressed before action is taken. This guide is a tool, not a replacement for good management skill. Audits and handbooks cannot do the manager's job; however, effectively designed instruments, such as this audit, can save valuable time for the seasoned as well as the novice small business manager.

How to Use This Guide

In order to gain maximum effectiveness from this guide, you should answer all questions in the audit, with an affirmative answer indicating no problem and a negative answer indicating the presence of a problem in a specific area.

After completing answering the preliminary questions, you can proceed to review the analysis of each section of the audit that follows to determine what action is most appropriate. The audit analysis provides an overview of how the various elements of the audit are related. This audit covers the critical function of basic planning in a small business..

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2. Preliminary Questions

Please answer each of the following questions with a 'Yes' or a 'No', then proceed to the analysis section:

A. The company has a clearly defined mission.

1. There is a written mission statement

2. Company is carrying out the mission.

3. Mission statement is modified when necessary.

4. Employees understand and share in the mission.

B. The company has a written sales plan.

1. Market niche has been identified.

2. New product lines are developed when appropriate.

3. Targeted customers are being reached.

4. Sales are increasing.

C. The company has an annual budget.

1. Budget is used as a flexible guide.

2. Budget is used as a control device.

3. Actual expenditures are compared against budgeted expenditures.

4. Corrective action is taken when expenses are over budget.

5. Owner prepares budget.

6. The budget is realistic.

D. The company has a pricing policy.

1. Products or services are competitively priced.

2. Business provides volume discounts

3. Prices are increased when warranted.

4. There is a relationship between pricing changes and sales volume.

5. New prices are placed on last-in goods when the price on old stock gets changed.

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3. Planning Assessment Analysis

A. Company (Business) (Owner) has a clearly defined mission.

"What business are we in?" is a question that created a major problem for many of the cases analyzed by the authors. Too often owners/ managers cannot communicate their vision to customers, employees and/or bankers because they don't have a vision. To make a profit or To provide myself employment is not an operational answer to the question, although these may be true statements and may be the reasons the owner(s) went into business in the first place. A good mission statement tells why the business exists and defines its market niche. The mission statement is the foundation, upon which the business is built. Like a good foundation, it need not be fancy, but it must be solid.

1. There is a written mission statement.

This is an essential element of a good loan application. Written mission statements are also useful for communicating to customers, employees and suppliers. They are the backbone of strong marketing and promotion efforts.

2. Company is carrying out the mission.

If a company cannot execute its mission, it is probably losing money and certainly not maximizing profits. If it is not accomplishing its mission, the owner-manager must ask why. Maybe the mission is unrealistic. Possibly the competition is doing a better job of accomplishing that same mission.

3. Mission statement is modified when necessary.

Often a realistic change of mission can turn a losing business into a profitable one. An example of this is a restaurant that redefined its mission as that of a catering service, thereby accomplishing the owner's personal goal of making a good living.

4.Employees understand and share in the mission.

Confused employees, pilferage and poor customer relations are the result of employees who do not understand the mission of the business and how they fit into it. A clear mission shared with employees results in high employee morale and efficient operations.

B. Company has a written sales plan.

A written sales plan is essential for an effective marketing effort. It provides specific direction for the business and it is inextricably linked to marketing success. The plan should detail sales goals by month and describe the specific efforts to be undertaken to ensure that those goals are reached. Pricing policies should be a part of the plan, along with a brief description of product distribution channels. The most compelling reason for sales planning is that it is essential to sound cash-flow management.

1. Market niche has been identified.

Very few business opportunities are new and original. Because of this, it is essential for small businesses to find an appropriate, unique market niche to be successful. The niche they fill may have to do with the service provided, its quantity or quality, the personal attention to customers' needs or simply the business location. Analysis of cases showed that many of the more successful businesses had defined their market niche by their location.

2. New product lines are developed when appropriate.

All products and services eventually become obsolete. Keeping in touch with your customers' tastes and preferences and your changing market characteristics is essential for survival. Obtaining feedback from current customers often leads to new product or service ideas. Wellplaced suggestion boxes or market surveys provide more systematic means of gathering such information.

3. Targeted customers are being reached.

It is important to reach the intended customers. Quite often sales can go up, but will not bring in extra profits. Not all customers are equal. Some customers cost more to service than others because of their distance from the primary place of business or because of their unique needs.

4. Sales are increasing.

If problems exist, they may be due to pricing structure, change in market demands, new competition, poor quality of product or service, poor or inadequate advertising or planning, problems with personnel or market saturation.

C. Company has an annual budget.

The annual budget is the simplest means of directing and controlling a small business. It is the one planning tool essential for effective operation. The annual budget links the business plan to business reality because it not only projects the business's direction, but is a means of tracing the flow of money into, through and out of the business and helps the owner determine how to use scarce resources. By comparing actual results with projections, the owner is able to evaluate the effectiveness of various business activities. Not having and not using a budget is a common reason for cash flow problems and subsequent business failures.

1. Budget is used as a flexible guide.

The budget does not represent business reality-it is merely a map describing where the business is going. A major mistake that often occurs with the budgeting process is thinking that money allocated to a certain expenditure actually exists in the bank. Effective business owners constantly check the budget against operational reality and make changes in the budget as needed. Flexible budgeting in response to actual business performance is the mark of a shrewd businessperson. Too rigid adherence to the budget often leads to poor profit performance and even bankruptcy.

2. Budget is used as a control device.

Controlling expenditures is essential if a profit is to be realized. The budget is the single most important device available for monitoring and controlling expenditures. Any business will eat up resources.

3. Actual expenditures are compared against budgeted expenditures.

Monthly and annual expenditure comparisons must be made for both control and flexibility purposes. It is the only way critical decisions and corrective actions can be planned and then taken. If the owner-manager is constantly putting out fires, monthly comparisons are not being made nor are timely corrective actions being taken.

4. Corrective action is taken when expenses are over budget.

Most small businesses get into financial trouble because they do the right thing too late. Taking timely corrective action is the mark of an effective business owner-manager.

5. Owner prepares budget.

An excellent budget prepared by an employee or accountant is virtually useless if the owner is not committed to it. Budget preparation educates the owner to the realities of the business. Looking at a budget prepared by another does not educate the viewer. When the owner has someone else prepare the budget, the control of the business has been delegated to that person.

6. The budget is realistic.

The budget must be based on a realistic appraisal of the business environment. Not taking the budgeting process seriously and dreaming about what one wants to see is a sure sign of business failure. Realistic budgeting is a time-consuming and demanding process, but it is the most effective tool at the owner's disposal for accomplishing financial objectives.

D. Company has a pricing policy.

Pricing goods and services is one of the most difficult problems confronting the small businessperson. Much has been written on break-even analysis as a rational means of determining prices and pricing policy. Too often the owner-manager looks at his or her competitors and charges a fraction more or fraction less than they do. This haphazard approach to pricing has been the ruin of many small business operations. A well-written mission statement, a unique market niche and a detailed budget will help guide the owner-manager through the pricing jungle. An effective pricing policy can be determined only after the owner has decided specifically what the business is, how it differs from the competition and what the cash flow needs are. Pricing should be determined through history and mission, not by accident.

1. Products or services are competitively priced.

Who is the competition? What is competitive? On the surface these queries look easy, but analysis of the cases demonstrated that few owners/managers knew who they were competing against. For example, a small hardware store is not competing with the chains, but with other small hardware stores that offer the same products and services. Services are harder to price than goods. It is difficult for the buying public to determine the fair price for services, and comparative shopping has much less effect in service industries than it does in hard goods industries. A close look at pricing policies can often move a business from red ink to black, but this is a time-consuming activity area for the owner-manager.

2. Business provides volume discounts.

Volume discounts are essential for large volume purchasers of goods and services. Clear volume discount policies save valuable time when dealing with customers and can even give the small business a competitive advantage.

3. Prices are increased when warranted.

Random price increases can drive away business and destroy goodwill. However, when the budget projections warrant, it is essential to make the increases. Waiting too long to increase prices can literally destroy a small business. This is another reason monitoring the budget is essential.

4. There is a relationship between pricing changes and sales volume.

If there is no direct relationship between pricing changes and sales volume, the sale of a product or service is relatively independent of its cost. When this is the case, either the market is saturated or the owner-manager should put a major effort into advertising and promotion.

5. New prices are placed on last-in goods when the price on old stock gets changed.

This should be obvious. When this is not being done, it is usually an indication that good general business practices are not being followed. Other than planning, poor general accounting and bookkeeping practices were found to be the major cause of financial problems for the small business cases studied.

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