Business Planning

Strategic and Business Planning: What is the difference?

Business planning and strategic planning are very closely interrelated. Strategic planning implies general directions of a business, main strategies, and a long-term perspective for about 2-4 years. Business planning can be seen as an aspect of the overall strategic planning of a company or organisation. Business plans state in detail the operation of the business or organisation from the marketing point of view, from the management and personnel point of view and from the financial point of view. They could also contain contingency plans. Generally, they offer a shorter term perspective. Depending on the size of your organisation - a large organisation might have a business plan for specific projects which each add up to meeting the overall strategic objectives of the organisation; a small organisation might consider a business plan for the entire organisation.

Remember the process of business planning is far more important than the business plan itself. Writing a plan and placing it on the shelf to gather dust is no use to anyone!

Why have a business plan?

Reasons why an organisation would undertake the process of business planning can be divided up into internal reasons and external reasons, including:

- Funders' needs
- Showing a business like, professional approach to the outside world
- Undertaking your funding process
- Need to make a case for particular projects
- Need to stop 'drifting and dabbling'
- Need to establish priorities
- Need to create or clarify a unity of purpose
- Need to take stock and review[1]

What is the process for effective business planning?

Business planning takes elements of strategic and project planning. The business planning process considers: background information**;** management and operational information (including marketing information)**;** financial information.

Background information

What to include in the background information? This section of your business plan takes into account strategic planning.

Internal considerations

Firstly, consider your vision and mission – is it clear? Why focus on your vision and mission?

- A good mission holds an organisation together
- A strong mission should convey the core values
- It gives criteria in which to decide and judge possible ideas and projects
- It gives focus to an organisation
- It makes the boundaries and limits of the organisation clear
- It makes clear what it is different or unique about the organisation.

Secondly, start to think about your strategic direction (see strategic planning worksheets for details on tools available to help you). Some questions that will help you to define where you work:

- What are your strengths and weakness? (SWOT)
- Look at your organisation's strengths and weaknesses at project level using the diagram below:

STARS	**QUESTION MARKS OR PROBLEM CHILDREN**
CASH COWS	**DOGS OR DEAD DUCKS**

For example, what are your

- stars: the activities & services that are particularly strong and have potential for growth?
- question marks or problem children: new activities that take up resources but you are unsure how they will perform (they might become stars, or they might become dogs or dead ducks)?
- cash cows: the reliable, safe services and products that have an entrenched position in the organisation?
- dogs or dead ducks: the activities that take up resources and effort and produce little value?

External considerations

- What other organisations working in your field exist? What are their strengths & weaknesses? What is your relationship to them? How much power and influence do they have over your organisation? (Stakeholder analysis)
- What do your users look like? What are the current needs of users? A problem-cause tree will help you in identifying current needs of your user group (see strategy planning problem-cause tree information sheet)

Future considerations

Predicting trends can be quite difficult and contexts are changing all the time. However, keep in mind that planning is just that, and it needs to be revised according to changes (dynamic or slow) in the external and internal environment. Some useful considerations for predicting trends (both internal and external) include:

- available resources: what will happen to resources that you currently have? (human, physical, financial)
- changes in how you work: how might working methods, styles and practices change? What is new in your field?
- changes in demands and needs: what will happen to your current user base? How will your user profile change? Will demand for your services go up?
- changes in the political/economic arena: what could be the impact of new legislation, changes in policy direction and the state of the economy?
- changes in the environment and market: what will happen to other agencies with which you cooperate or compete? Your partners?

The table below might help you to work out some of these predictions. Remember, no-one can predict the future, and these are guesses. However, research and analysis will help you to make more informed guesses.

	Available resources	**Changes in how we work**	**Changes in needs and demands**	**Changes in political and economic climate**	**Changes in market and environment**
Next 12 months					
1-3 years					
Longer term					

Given all this information, you will at this stage be making some strategic choices about what you will focus on – given some of the expected future trends, and your internal and external operating environment. This will include some overall outcomes for your users and possibly also your organisation. This in effect provides you with the basis for your business planning!

Operational Planning (including Marketing) & Management

Operational planning effectively describes how your organisation will function in delivering your project(s). This is one aspect of your business plan and depends on the outcomes that you choose to focus on (results of your internal and external strategic analysis). A relatively easy way to look at business planning is to list each of the outcomes you choose and the accompanying projects. For each project, list what types of activities (or objectives) you will be undertaking to achieve these outcomes (see project management worksheets for more detail).

For each of these outcomes and activities, you will need to consider the following:

- details of your service to your users – i.e. types of activities you will undertake, any processes, particular ways of delivering your service. It would be useful to phrase these in outcome terms and perhaps use some milestones to help you gauge the extent to which you reach these outcomes
- timelines (although this is generally in the overall business plan)
- staffing requirements (you might even wish to include skills & training in this)
- quality standards that you might wish to adhere to
- how you will monitor the service or activity

- what types of resources you may need, aside from human resources. For example what physical and financial resources do you need and where will you get these? (see fundraising strategy worksheet for more information on fundraising options)

One more point to consider is risk. There are different types of risk to be aware of, with different levels of impact and likelihood. Some of these risks could be:

- tangible or physical risks: e.g. flood/fire
- service delivery risks: e.g. if a duty of care to the user has been broken, or illegal practice
- financial risks: e.g. fraud, operating costs increasing suddenly, sudden drop in available funding
- organisational risks; e.g. internal factors such as key staff or volunteers leaving
- political or reputation risk: e.g. something happens to give the organisation a bad name
- market and business risk: e.g. a change in the demand or the entry of new competition

The table below gives an example of how you might identify and manage risks:

	The likelihood of it happening	**The potential impact of it**	**Action needed to prevent it**	**Contingency plan to manage it**
Risk 1: All funding is short term, risk that some projects could close in 18 – 24 months time	Medium – depends on our ability to secure new funds or extensions to existing funds	Critical	Start developing exit strategies for each project. Open discussions with funders	Must always be considering improvement of current projects, ways to demonstrate success to funders. Also to develop new projects
Risk 2: We are dependent on a small team of volunteers – risk that the volunteers may leave	Medium – need to recruit new volunteers	Important that we stay a volunteer-based agency – we do not want to rely on paid staff	Increase volunteer recruitment. Develop volunteer retention plan	Run volunteer recruitment campaign. Develop succession plan.
Risk 3: Cash-flow risk as some of our funders pay late or in arrears so we might not be able to pay our bills	High – increasingly being paid late by local authority	Threatens our financial security and ability to pay staff	Set up monthly cash-flow monitoring process. Discuss with local council.	Set up loan facility. Re-negotiate payment schedule in service agreements.
Risk 4: Risk that other agencies might move into this area and start winning contracts	Medium	Depends if we cooperate or compete.	Identify who is moving in – is there a possibility to work together? If not, how will we be unique?	Develop strategies to work together and not compete. Work out what we do best and focus.

Marketing

In the business world, marketing is important to 'sell' a particular product or service to a paying customer. In the third sector, however, we see the 'market' as our users – we don't expect them to buy anything (although perhaps a donation or a small fee might be appropriate); however we do need our users to 'demand' our service - which should come as a result of our needs analysis/problem-cause tree analysis. The flip side of recognising need is also to promote the service or product, so that more people are aware of what is on offer, and we get the demand from our users to justify continuing projects. Often the best marketing tool we have is word of mouth from other users. However there might be some other mechanisms that you could consider:

- social networking and media (Internet)
- face-to-face networking events
- leaflets, brochures
- websites
- community radio & local newspapers
- pin boards in community centres

Don't forget to include how you might market your projects, activities or service to your particular user group or to attract new users.

Management

It is good practice to consider the structure of your organisation (or project) and include this in your business planning. Some business planning processes include details of the following:

- history of the organisation & legal details
- experience of working in the sector
- organisational structure including board of trustees (or directors if a company) as well as appropriate skills/experience of trustees
- experience of key management staff as well as expertise
- skills, training and abilities of any staff and volunteers.

Sometimes you might also want to identify areas of training for any of your trustees or personnel.

Financial information

This is often the 'make or break' of a business plan. Very few organisations in the voluntary sector can predict their financial position beyond two years (especially in the current economic climate). However, the financial information in a business plan must be able to show the outside and inside world:

- whether the organisation is financially viable
- that it has made sensible assumptions about its financial future
- that it has realistically costed its activities and taken into account contingencies
- that it has sufficient financial controls to properly manage and plan
- that it has coherent financial management policies

Furthermore, a tighter funding climate, moving towards contracts and increased transparency, has meant a greater emphasis on financial management for voluntary sector organisations. Knowing exactly how much a project, activity and outcome will cost you helps to negotiate the right price or funding with commissioners and grant funders. You could influence a historical track record as well as proposed future income and expenditure in the financial information you give:

- balance sheet of the last year end
- income and expenditure accounts including a statement of financial activities
- budget for the coming year(s) (admin/running costs or a full cost recovery method)
- predictions of future income for the coming year(s)

When budgeting, it is increasingly advised that you move to a full cost recovery method. This means that some of what was traditionally called 'core' costs are allocated out according to the projects that you run. This has highlighted some issues amongst voluntary sector organisations:

- often costs involved in good management and operating have not been properly identified which can easily lead to the long-term crisis of struggling to do 'quality work on the cheap'
- often the full costs of a project are not included in funding bids, and organisations that have moved towards full cost recovery have realised that often grants do not cover the costs involved in a project – which leads to the question of voluntary organisations subsidising projects
- a useful way to look at core costs (such as management and central services) is to identify how these functions add value to the service or project and therefore justify core costs
- a business plan can help you to make a good case and defend to funders about the costs involved in your project

Predicting your income

After doing a budget, you will have a clear idea of how much it costs to run your organisation and its projects, but what about income? Many organisations suffer from the short-term outlook around grant funders. You will need to try and predict where you will get your income from, how much you will need from each source to meet your needs, as well as the action you will need to take to secure those funds (see fundraising strategy worksheet for more information). You will need to consider various forms of income which might include:

- grants from statutory bodies
- service level agreements and contracts
- grants from trusts and companies
- public fundraising & income from users (eg perhaps they might be able to donate small amounts for the services they receive)
- sponsorship
- legacies
- subscriptions and donations from members
- profit from trading or selling services
- hire of resources (e.g. if you have a community centre)
- investment income
- management fees

Some questions to consider when you are looking at your organisation and its financial health:

1. Do we have sufficient working capital? (Working capital is the current assets minus the current liabilities. Often organisations live a 'hand to mouth' existence where slight financial problems cause difficulties, and may mean that your organisation cannot follow up on new opportunities)
2. Do we know what it costs to operate? e.g. full cost recovery?
3. How do we price our work? If you are charging for services, there can be three ways to set the price
    a. plus cost: a fixed percentage added to the actual cost to create some surplus
    b. under cost: the fee is below the actual cost (might be strategic reasons for doing this)
    c. market price: there is a 'going rate' for services provided
4. Can we control the patterns of cash flow?
5. Is the balance between direct and indirect costs right?
6. Are we managing our income as well as our expenditure?
7. What sort of contingency fund do we need?
8. How will we replace capital items that depreciate over time?
9. Do we have sufficient financial skills?

This table below will help you to identify the types of mechanisms and how you can use them to help you to determine your financial viability.

	What is it?	**What should it tell you?**	**How can you use it?**
Budget	An estimate of income and expenditure for a set period	Where the money should go and where the money should come from	Regular (usually monthly or quarterly) reports will show actual income and spending and compare to your budget
Balance sheet	A snapshot of the financial health of the organisation on a particular day – usually at year end	The current value of the organisation, ie the difference between liabilities (money owed) and assets (what it owns – fixed and current)	The acid test of viability – is the organisation a concern?
Receipts and payments accounts	What cash was received and what was paid out in a period	How the organisation is spending and receiving money	To reconcile spending with the bank account and to monitor cash flow
Income and expenditure accounts	The receipts and payments account adjusted to include money owed to it and money owed by it – this gives a true picture of the organisations income and spending	Whether income will meet expenditure	To indicate current financial performance
Statement of financial activities	A summary of all incoming resources and how they are used	For most charities this is used instead of the income and expenditure accounts	To show how the organisation uses it's funds and the breakdown between charitable expenditure, fundraising,

			publicity costs and management and admin costs
Cash-flow forecast	Timed forecasts of when income will be received compared with planned spending	Whether there are any points when there will be not enough cash to meet outgoing payments	To ensure scheduling of income and expenditure.

Putting the Plan to Paper: things to include

In writing your business plan, it is important to consider the following sections – there is no right or wrong answer here and plans will vary depending on what is relevant for different organisations. For example, you might consider the following sections:

- Executive summary
- Introduction and mission
- Organisational background
- Summary review of the organisational track record
- Future trends including user trends
- Strategic direction and operational aims
- Outcomes for users and key milestones
- Management structure and personnel for activities
- Risk assessment of activities
- Financial position including projected income & expenditure levels
- Immediate action plan

Putting the Plan into Action: Top Tips

- Remember you have a better chance of making this a living document if you engage people at the start – front line staff, volunteers and those working in support areas such as HR and finance.
- Remember that it is a plan – and it will need to be monitored and adapted to the changing context. It is not a perfect world and the plan should be realistic for the organisation.
- Some plans involve changes – ensure the managers and staff have the time and skills to implement the changes involved
- Use the plan when looking at individual staff roles – How does this affect their work? What changes occur? What training is needed? What aspects could you put into an action plan for the individual?
- How is the business plan referred to in workplace discussions? Build it into meetings, so that managers, staff and volunteers know about it and use it.
- Consider how you might monitor and evaluate the plan – you could use the milestones and outcomes identified in the plan to monitor your progress.