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The Relevance of Business Strategy and Planning

“The most important task is defining the course that the business will take over the next four or so years. You have to have the ability to see what the business environment might be like a long way out, not just over the coming months. You need to be able to both set a broad direction, and also to take particular decisions along the way that make the broad decisions unfold correctly.”

Chris Corrigan, CEO Forum



In a general sense, every business has some form of strategy. It may not be written, it may not be the result of any formal planning; it may simply be the product of daily actions that drive the direction of the business and its resulting future actions. It's the looking ahead that makes planning strategic.

From a simplistic point of view, it's with the vision as to a desired future state of the business, that one can analyse the present state, compare the two, identify gaps and start to draw a road map for closing those gaps and driving the business towards its goals.

However, in the real world, businesses are constantly impacted by external market forces. Simply imagine building a plan that tries to predict business growth, the competitive landscape and work processes three to five years from now in an environment where the plan is under frequent threat from obsolescence through changes and economic upheaval even before the ink dries.

As businesses grow, become more complex and exposed to greater risks, their strategies need to be more explicit. In a broad sense, risk grows exponentially as operations expand. Growth or

survival in the long term becomes dependent upon ensuring that strategy is appropriate, aligned to marketing opportunities and resources and clearly understood by the people responsible for its implementation. It's the failure to adequately and frequently plan against risk that often leads to failure.

Avoiding Business Failure

Whilst businesses can fail at any stage, they tend to be more prone to failure during their first five years of operations – a period of establishment and initial growth, where inadequate planning features as one of the major causes of failure. As an observation, the signs of pending failure will first become evident to outsiders, with those inside the business often failing to recognise the signs due to their closeness to the business. This generally reflects the over-optimism of management towards the business's positioning in the market and how it's performing.

From a broader operational perspective, the reasons why a business may fail are extensive. Some of the more common reasons which typically arise from a lack of strategy and planning, include:

Finance	Marketing/Sales	Product	Management	Operations
<ul style="list-style-type: none"> ■ Insufficient funds or access to finance ■ Incorrect mix of funds – ie: too much debt! ■ Over-reliance on trade creditors for funding ■ Confusing profit for cash flow ■ Over-trading ■ Over-optimistic projections 	<ul style="list-style-type: none"> ■ Misjudge size or growth of market ■ Over-optimistic estimate of market share ■ Delays in developing distribution channels ■ Under-estimating strength of competitors ■ Misreading customer requirements ■ Lack of promotion 	<ul style="list-style-type: none"> ■ Inability to correctly price the product ■ Problems with maintaining quality ■ Restricted range of offerings ■ Lack of innovation ■ Problems sourcing supplies ■ Products out of line with customer needs 	<ul style="list-style-type: none"> ■ Lack of experience ■ Insufficient functional support ■ No formal or clear structures ■ Ineffective Management Information Systems ■ Lack of reporting and acting upon it 	<ul style="list-style-type: none"> ■ Under-investment in equipment ■ Excessive overheads ■ High operational costs and/or low productivity ■ Poor capacity utilisation ■ Inadequate distribution channels ■ Inappropriate business location

From our experience it is apparent that management in seven out of 10 failed businesses will admit that with hindsight the causes of failure should have been more apparent. The focus for management is to anticipate emerging problems through building appropriate strategies from the outset and ensuring the variables are reviewed regularly in light of any changing circumstances in the business environment.

Characteristics of a Successful Business

The traits of successful businesses can be found across a broad range of companies. These companies tend to display many of the following characteristics:

- Solid management team with functional planning skills
- Properly financed (appropriate mix of debt to equity)
- Solid cash position (access to growth capital)
- Achieving above-average profitability (return on investment)
- Strong brand
- Achieving strong growth in revenues
- Focus on expanding or attractive market segments
- Continually reinvesting in innovation/research and development
- Successfully competes on non-price issues (quality, service, etc.)
- Understands its customers and is responsive

Achieving success in business does not come easily. From an operational perspective, it requires, as a minimum, a strong management team that understands its industry sector, works in unison and has deep knowledge of the drivers in the key functional areas of the business – namely sales (customers), product, operations and finance.

Strategy is about positioning the manner in which a business aligns or plans its products and resources in the market. It's the structuring of a plan that matches the business's internal capabilities and resources to the external influences of the market. These influences can include customers and competitors, as well as the potential impact of economic, Government or social trends.

Relevance of Planning

It would be reasonable to say that all major corporations devote a considerable amount of resources to strategising and planning. Can an SME afford not to plan and simply react to events as they occur? Or should they set priorities and manage outcomes in a proactive way? From our experience, a large percentage of small-to-medium enterprises fail to implement adequate planning.

The benefits from planning are simple:

- Positions for growth
- Reactive to adverse occurrences
- Sets responsibilities and accountability across the business
- Provides proper allocation of resources
- Allows performance to be measured
- Provides for better management of working capital

As a basic guide to building strategy, a check list follows. It is not intended to be all inclusive, but more as a framework for examining business processes and expanding to suit the individual situation of the business. Its aim is to provide thought for SMEs regarding areas of possible opportunities, constraints and risks facing businesses.

Selling

Customers

- Profile Customers
 - Who are they? Where are they? What do they want?
- Analyse sales history by
 - Product; customer
- Why do new customers come to you?
- Why do customers continue to buy from you?
- What steps are taken to maintain customer relations?
- Why have customers left you?
- What steps are taken to regain lost customers?

Market

- How do you define your market by
 - Product? Customer? Location?
- Are your markets growing, shrinking or changing?
- What share of the market
 - Do you hold? Should you hold?
- How has market share changed over the past 1-2 years?
- Can you fund the costs of increasing market share?

Demographics

- Are population shifts affecting your revenue?
- What age group buys your products/services?
- Who are the main users of your products?
- Does your marketing division understand the demographics of your customers?

Competition

- Who are your competitors by
 - Product? Market? Location?
- Do you understand your competitors' actions?
- Do you understand your competitors' strengths and weaknesses?
- Have competitors aggressively attacked your market?
 - How have you reacted?
- Do you know your competitors' pricing policy, terms and conditions?
- How does your competitors' productivity compare to yours?
- Are your competitors' marketing, distribution and cost structures better positioned than yours? How?

Segmentation

- Are your products described by market segments?
- Have you positioned the business in these segments?
- Have you considered expansion into new segments?
- Are your market segments growing or declining?
- Have you analysed the pros and cons of dropping support for a declining market?

Differentiation

- What markets are worth pursuing?
- What products do you need to have to make a difference in the long term?
- Are you supporting those markets and products?
- In what ways have you differentiated your products for your competitors?
- Should you consider:
 - New pricing strategies? New advertising/promotion? Enhanced service/delivery?

Operations

Manufacturing

- Are processes appropriate or are they outdated?
- Are processes integrated to overall strategy?
- Is adequate capital committed to support the processes?
- Do manufacturing capabilities compare to those of competitors?
- Is performance measured against results?
- Are manufacturing processes flexible (shorter runs/shifts, etc.)?

Labour

- Is the work force properly skilled?
- Is training appropriate or inadequate?
- Is labour matched to production/output?
- Does the labour force understand production requirements and their tasks?
- Is labour efficiency measured?

Distribution

- Are distribution channels efficient and cost effective (both inbound and outbound)?
- What is the trade-off between speed, quality and cost?
- What portion do distribution costs represent in price to the customer?
- Have you considered outsourcing distribution?
- Do you measure effectiveness of the distribution process by:
 - Service level? Productivity?
- How do service levels and productivity compare to the competition?

Technology

- Where is the greatest risk of obsolescence?
- Is technology impacting how the customer does business (threat or opportunity)?
- How does technology impact the manufacturing, marketing and distribution functions?
- Do your competitors have a technological advantage over your business?
- Do you have a monitoring process to understand/predict technological change?

Inventory Management

- Have you reviewed the effectiveness of your supply chain?
- Do you measure the cost of:
 - Holding inventory? Placing orders? Inventory shortage?
- Are inventory levels planned to meet forecast production/sales?
- Is the inventory turn satisfactory?

Management Information

- Has the business determined what it wants to measure (and frequency)?
- Is the technology supporting the Management Information Systems (MIS) adequate?
- Does MIS adequately support the business strategy?
- To whom should management information be distributed?
- Are you adequately acting on management information?

External Market and Capital

Financial Resources

- Does your financial situation constrain the business?
- Is your debt capacity reasonable?
- Could you afford to fund a new growth strategy?

Cost of Capital/Return on Investment

- Are profit targets appropriate to the capital base?
- Is profitability on projects measured against the investment cost and risk?
- Are hurdle rates set for return on investments?
- Is the cost of equity assessed to the cost of debt and risk?

Shareholders

- Why have they invested in your business?
- What is their expectation (ie: capital gain? Dividends? Or both?)
- Should the business be attracting new shareholders?

Risk

- Is the business risk adverse or a risk taker?
- What criteria, other than financial factors, influence the risk posture?
- How do you identify and measure risk?
- Are contingency plans developed to deal with the unexpected?

Economic Trends

- Will macro trends affect your industry/markets?
- Will economic conditions vary by geographic region?
- Is your business susceptible to inflation, interest rates, currency fluctuations, etc.?
- Will fluctuations in energy, transport commodity costs, etc., impact your business?

Government Trends

- Is Government policy likely to impact your existing business and/or create new business initiatives?
- Are cuts in Government funding likely?
 - Will this directly affect the business?
 - Will it impact customers/suppliers?
- Can you effectively compete in a shrinking market?
- Will regulatory changes affect the business, customers or suppliers?

Social Trends

- What trends will create opportunities?
- Will a change in trends render existing products obsolete?
- Will basic changes in lifestyle affect your business?

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