

Small Business Management

Lecture 4

website: <http://sme-centre.massey.ac.nz>



Today's lecture

- 9-10 am SMEs and strategic planning
- 10-11am The business plan

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Strategic planning & SMEs

The objective of the lecture is to outline the different levels of planning that are appropriate for SMEs, the steps of the strategic planning process and the importance of planning for small and medium enterprises

Levels of planning

Strategic planning

- ▶ Vision/Mission
- ▶ Objectives
- ▶ Strategies

Tactical Planning

- ▶ Policies
- ▶ Methods & procedures

Operational planning

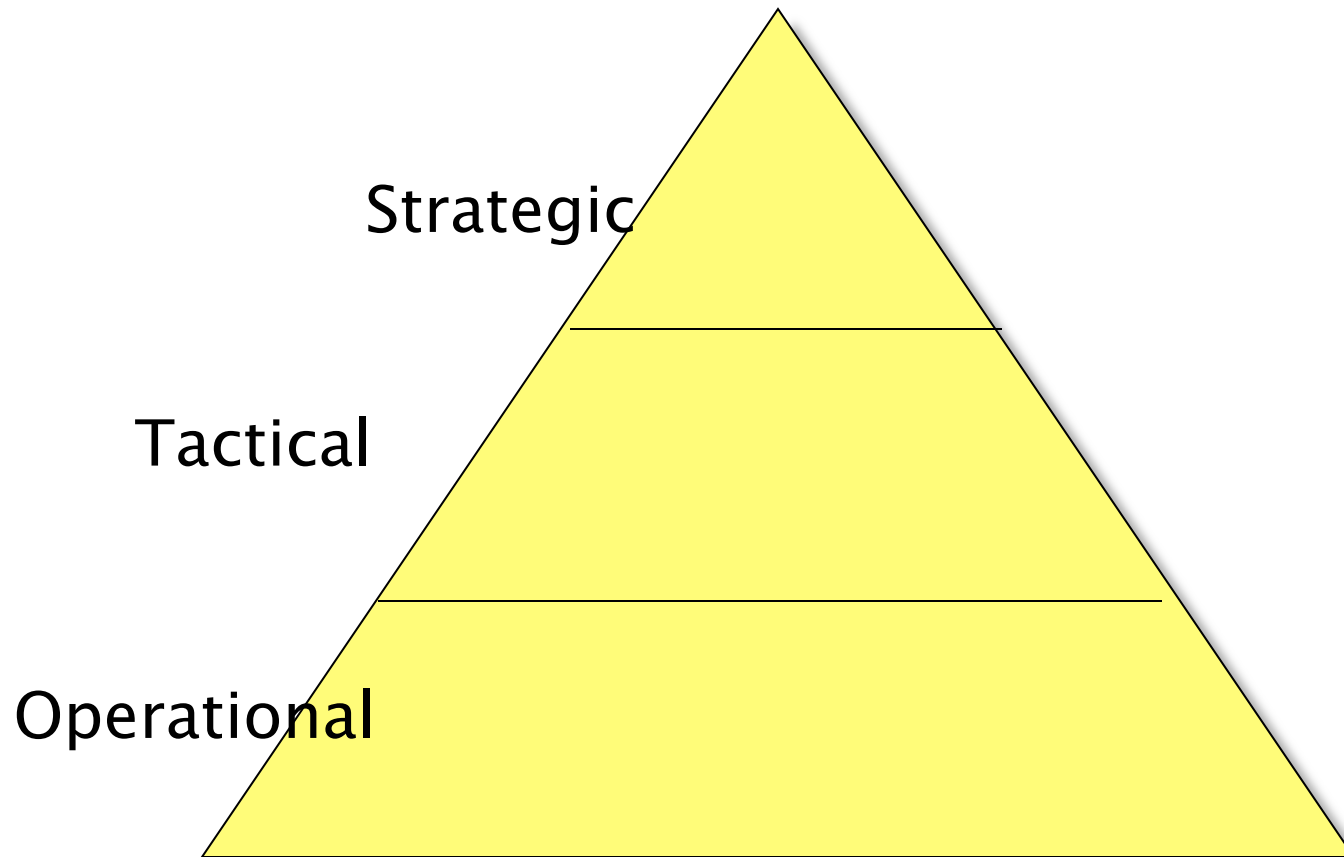
- ▶ Budgets & standards
- ▶ Targets

The three levels of planning

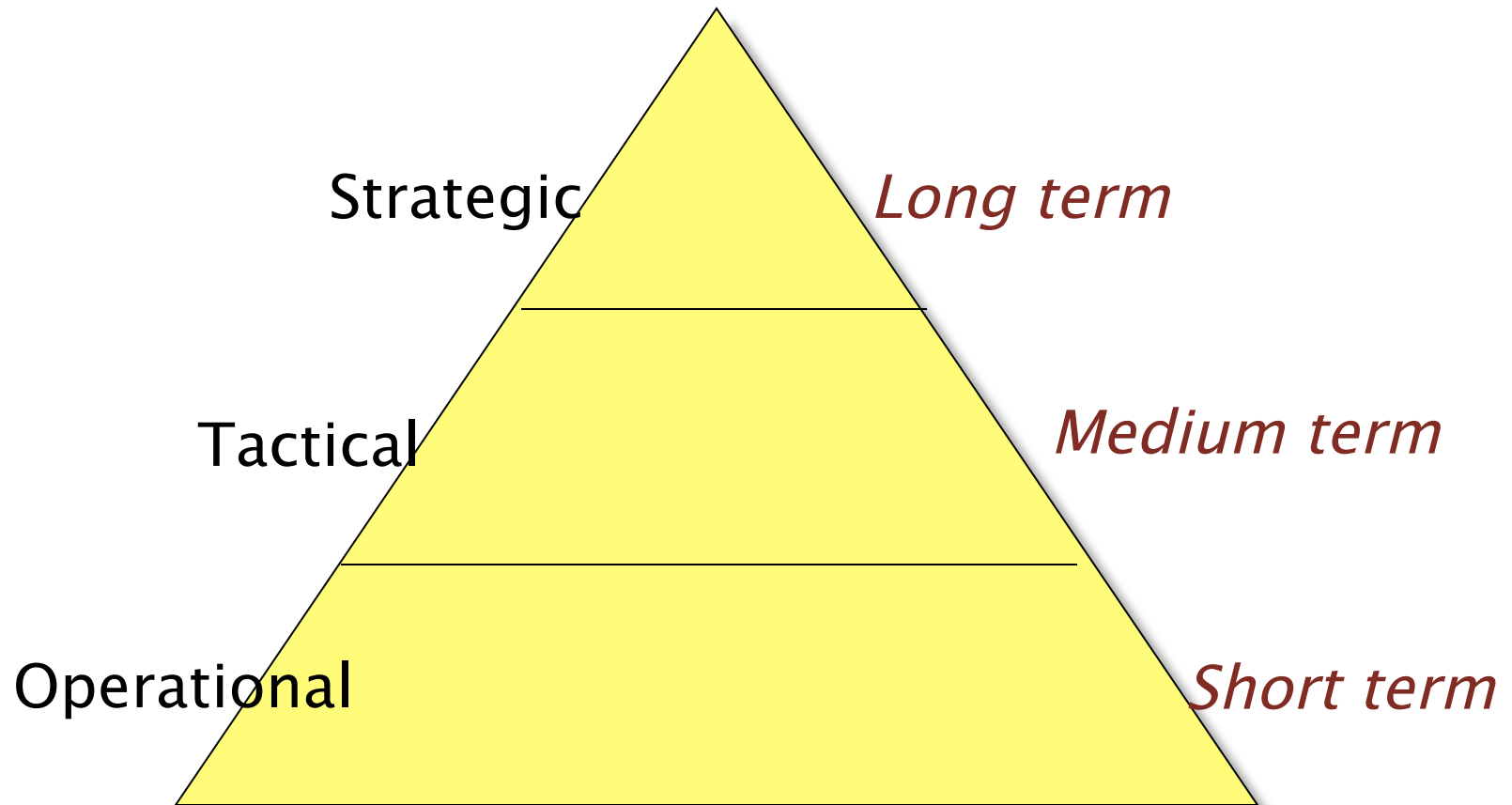
Result in different plans:

- Strategic plans
- Tactical plans
- Operational plans

Types of plan



Types of plan



Strategic planning is about...

Asking (and answering) two questions:

1. What business(es) should we be in?
2. How do we compete in a given business
(and in a given industrial sector)?

Hofer (1975, cited in Carter & Jones-Evans, 2000)

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Goals of a strategic plan

- To create competitive advantage
- To facilitate the matching of strengths and weaknesses to the opportunities and threats in the environment

Zimmerer & Scarborough (2002)

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Strategic planning for SMEs

- Use a short planning horizon (<2 yrs)
- Be informal, not overly structured
- Encourage participation from stakeholders
- Focus on the customer
- Focus on strategic **thinking** not just strategic **planning** – link longer-term goals to day-to-day operations

Zimmerer & Scarborough (2002)

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The strategic planning process

1. Develop a clear **vision** and translate it into a mission
2. Define the firm's core competencies & target markets
3. Assess the firm's **strengths & weaknesses**
4. Scan the environment for **opportunities & threats**
5. Identify key success factors
6. Analyse the competition
7. Create firm goals & objectives
8. Formulate strategic options & select appropriate strategies
9. Translate strategic plans into action plans
10. Establish accurate controls

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Zimmerer & Scarborough (2002)



Vision statement

A clearly defined vision helps a firm by:

- ▶ Providing direction
- ▶ Informing & influencing decisions
- ▶ Motivating people

Zimmerer & Scarborough (2002)

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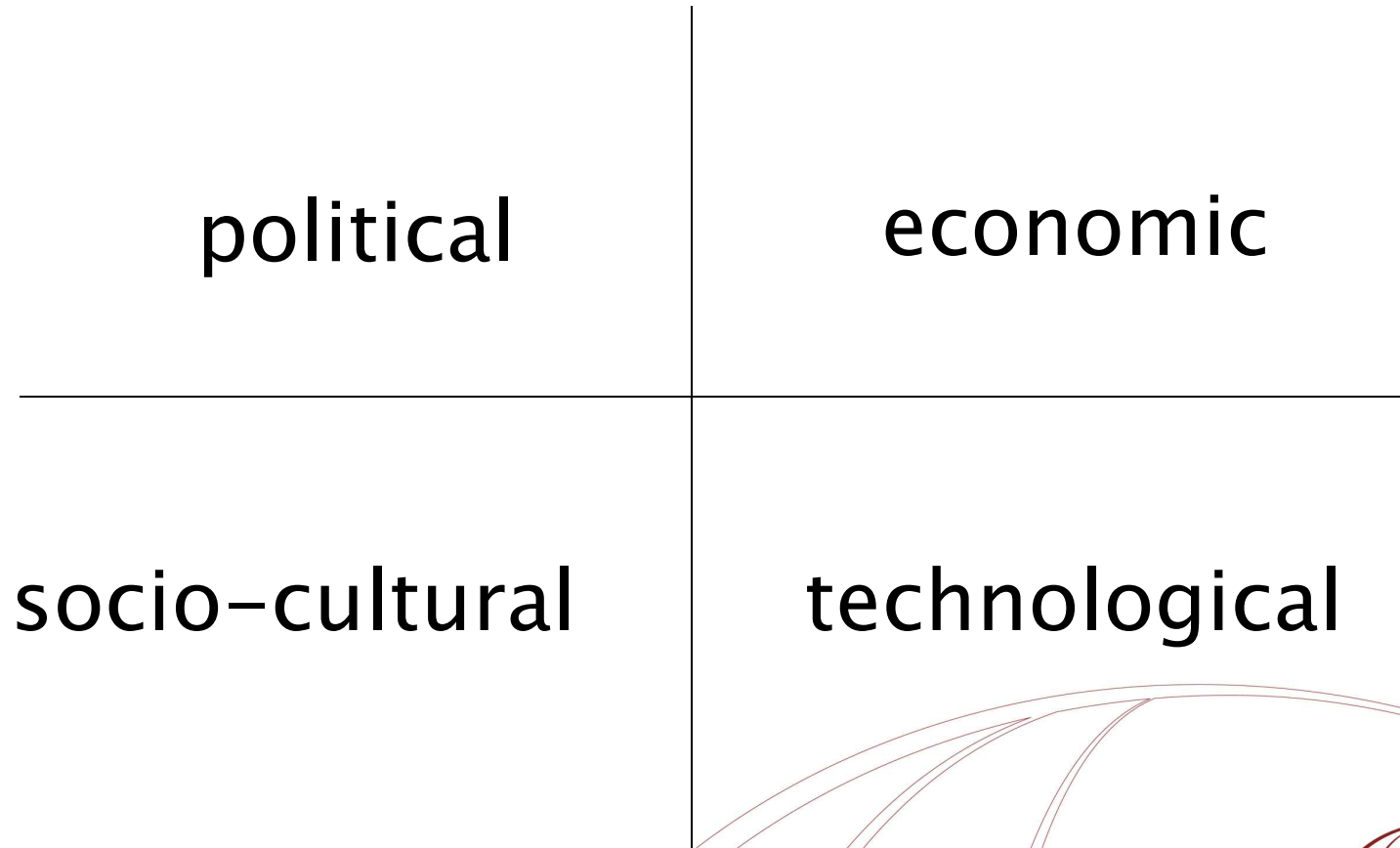
Assessing strengths & weaknesses

- SWOT analysis (strengths, weaknesses, opportunities & threats)
- PEST analysis (political, economic, socio-cultural, technological)

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The PEST framework



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Scanning the environment

Scanning

- ▶ to detect change that is already underway

Monitoring

- ▶ tracking the evolution, development & sequence of events

Forecasting

- ▶ the development of plausible projections of the future

Assessing

- ▶ interpreting – asking “what does it all mean?”

Dollinger (1995)

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Tools for environmental scanning

- SWOT analysis
- PEST analysis (political, economic, socio-cultural, technological)

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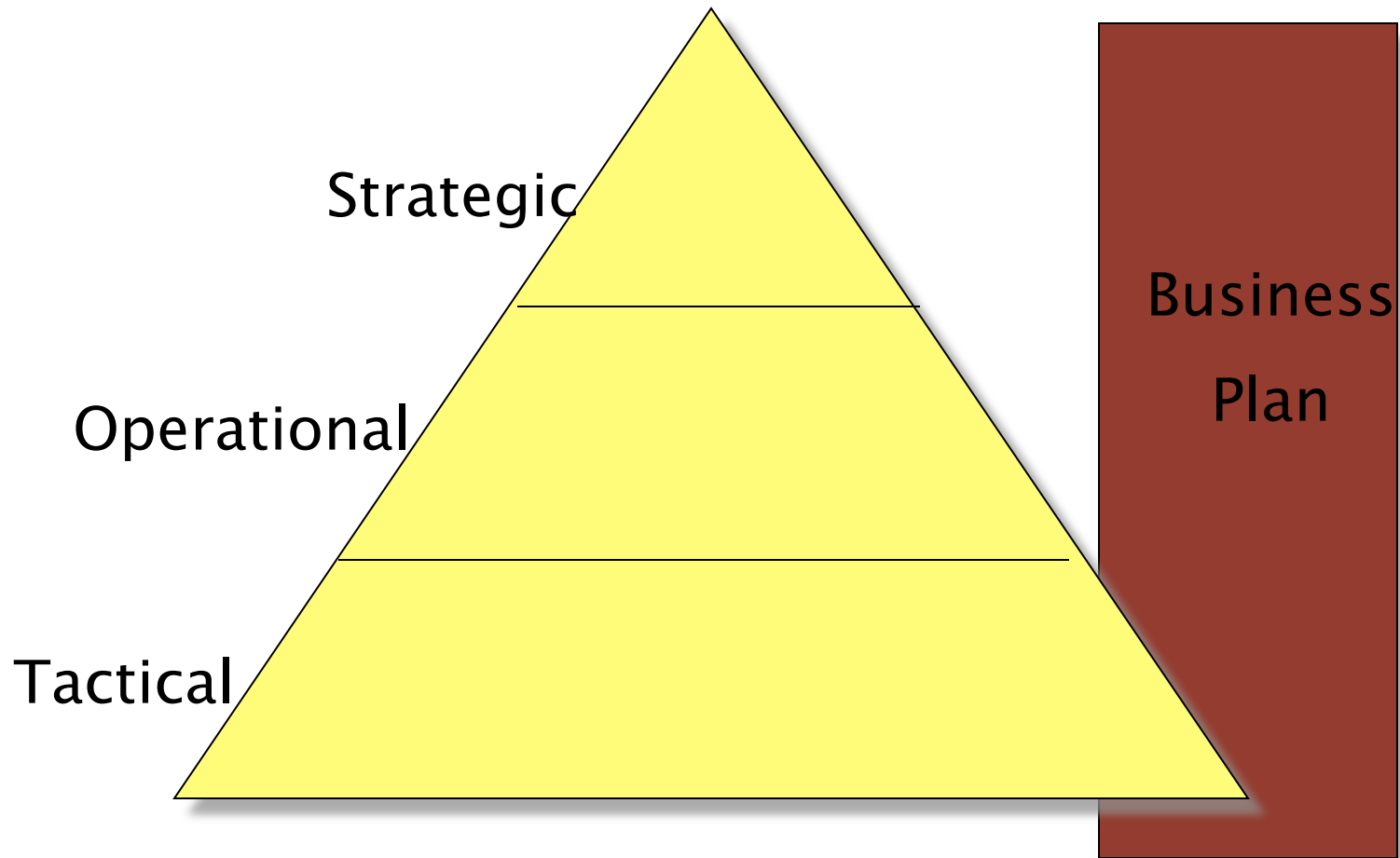
The business plan

The objective of the lecture is to outline the purpose and components of a business plan, and the process that precedes its creation

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Types of plan (2)



SMEs & business plans

- Research (Austin, Fox & Hamilton) in 1996 showed that only 39% of NZ SMEs had a written business plan covering all aspects of the business. As a result many businesses were unable to adequately present their case for funding.
- In 2002 work by the MED found that 63% of small businesses (6-19.5 FTEs) have a business plan (compared to 91% of businesses with more than 50 employees).

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Cameron & Massey (1999) & MED (2002)



A business plan

- is a written description of the business
- is one of the outcomes of the business planning *process*
- records the business owner's intentions & summarises the market research that was done before start-up
- is usually developed by the owner
- is part of the start-up process

A business plan

- serves as a reality check
- is a 'living guide' to the business
- is a statement of intent for interested third parties (e.g. investors, lenders, suppliers etc.)
- helps owners/managers see the need for outside advice
- helps maintain a results orientation

Allen (1999) & Hamilton & English (1997)

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To prepare a business plan

Information on different aspects of the firm's operating environment is needed:

- ▶ Market information
- ▶ Operations information
- ▶ Financial information

Hisrich & Peters (1995)

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An outline of the plan

1. Summary
2. The past
3. Management
4. Product or service
5. Marketing
6. Operational details
7. Financial analysis
8. Prospects

Higham & Williams (2001)

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An outline of the plan (2)

1. Introduction
2. Executive summary
3. Industry analysis
4. Description of venture
5. Production plan
6. Marketing plan
7. Organisational plan
8. Financial plan

Hisrich & Peters (1995)

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Costs of business planning

- Time
- Energy
- Money (if you pay someone to help you, for example an accountant or business advisor)
- Opportunity costs

Benefits of business planning

- The time spent putting the plan together forces the business owner to look objectively & critically at the venture
- It aids the development of operating strategies
- The plan quantifies goals & objectives, which can help reduce anxiety & stress, and be used as a means of comparing forecasted with actual results
- The plan is a tool for communicating with potential sources of finance and other external parties

Kuratko & Hodgetts (1989)

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What lenders & investors look for in a business plan

- Capital (a stable capital base)
- Capacity (cash flow)
- Collateral (assets)
- Character
- Conditions (an appropriate response)

Zimmerer & Scarborough (2002)

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In a weak business plan

- The goals set are unreasonable
- The goals are not measurable
- The plan fails to identify threats and weaknesses
- No customer need was established for the product or service

Hisrich & Peters (1995)

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Remember to....

- Keep the plan an appropriate length
- Organise and present the plan appropriately
- Orient the plan towards the future
- Avoid exaggeration
- Highlight critical risks
- Capture the reader's interest

Kuratko & Hodgetts (1989)

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Reminders

- Assignment 1 is due by 4pm on Friday 15 August
- Submit all assignments by placing them in the departmental assignment box in 5H08
- Include a cover sheet, a copy of your chosen article & a reference list
- Proof-read your assignment!!
- Look out for the courses offered by the Learning Centre

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• Notices

Readings for Week 5:

- Case study 15

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