

# MODULE 9

## BUSINESS PLANNING

PART OF A MODULAR TRAINING RESOURCE

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## BUSINESS PLANNING

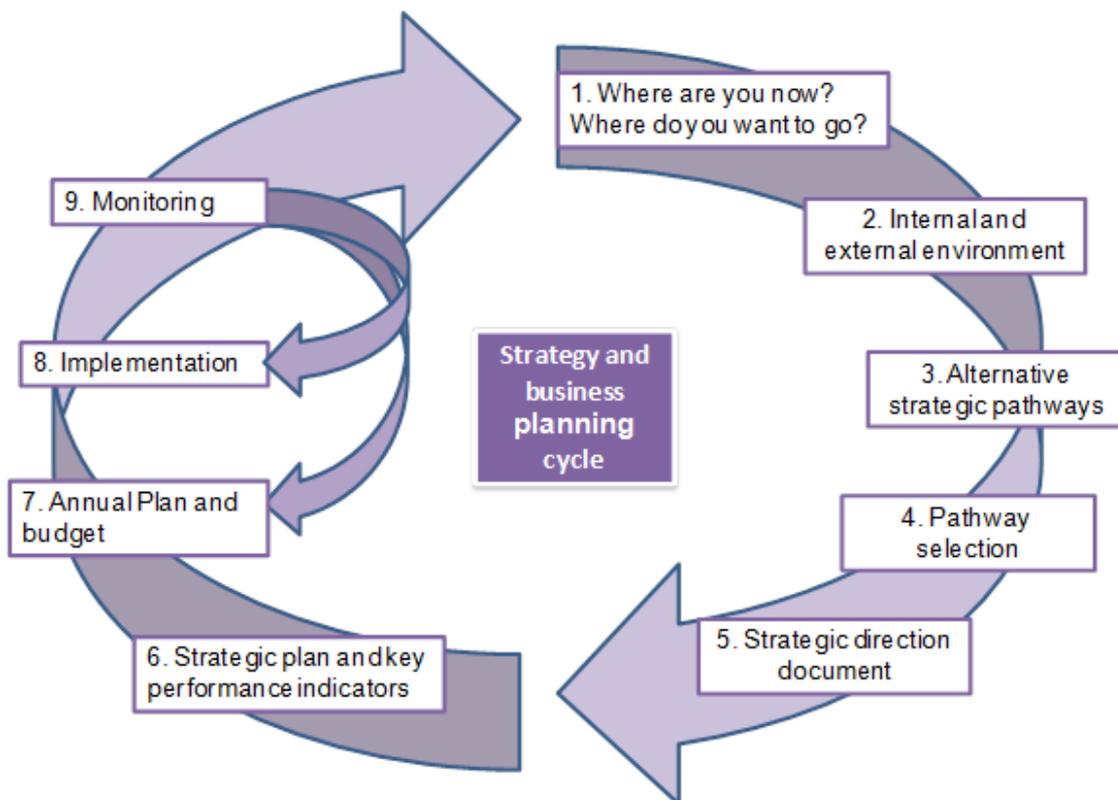
### INTRODUCTION

This Module will provide a range of tools to assist you to develop a comprehensive strategic plan for your business. It will help you 'pull together' all of the thinking and information gained from other components of this Package.

### A STRATEGY AND BUSINESS PLANNING FRAMEWORK

The following framework is a simple overview of the steps involved in developing a strategic plan for your business. This may seem like an overwhelming task, yet delaying or avoiding strategic planning means missing an opportunity to prepare for and manage change. A strategic plan provides the framework to make quick and sound decisions, and to express those decisions to your stakeholders in a strong format.

The following cycle presents a generic approach to strategic planning. It is not prescriptive, but serves to illustrate the key elements of strategy formation and implementation.



The key elements of the Strategy and Business Planning Cycle are discussed over the following pages.

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## WHERE ARE YOU NOW? WHERE DO YOU WANT TO GO?

The Board and management are responsible for leading a review of the organisation's current position, its alternative futures and its 'preferred future'. The constituted objectives of your organisation will frame your thinking; however, this is an opportunity to consider if your organisation needs to adjust its purpose.

Work undertaken in the areas described in the Introductory Module and in Modules 1 to 8 will be useful here. The Introductory Module to Module 5 focus on a review of the current position of the organisation (Where are you now?), and Modules 6 to 8 focus on opportunities for the future (Where do you want to go?).

'The best strategies are born from management's analysis and creativity, coupled with the Board's incisive questioning and probing. The Board should see the CEO and the top teams present in their own words, then probe it, question it, and offer opinions on it. In depth interactions with management strengthen the strategy and ensure that it is realistic.'

R Charan, Boards that Deliver, Jossey-Bass, San Francisco, 2005 page 113.

This material can be collated to inform the Board and management's considerations and can provide the necessary information to formulate your organisation's strategic plan. As an overall comment, the employment services industry has a number of barriers to entry that will require organisational strategies to overcome.

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## ASSESSING THE ENVIRONMENT

At the same time, consideration of impacts from the external environment and internal environment on your organisation need to be considered.

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### EXTERNAL ENVIRONMENT

The Tools and Tips section of this Module provides two tools for assessing the external environment, on pages 8 and 11. Also consider any work undertaken in the areas described in Module 6 (Exploring business opportunities) and Module 7 (Partnering for business growth).

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### INTERNAL ENVIRONMENT

Page 14 in the Tools and Tips section of this Module provides a tool for assessing the internal environment. Consider this together with any work undertaken in the areas

described in Module 3 (Redeployment of staff) and Module 10 (Managing change and communication).

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## ALTERNATIVE STRATEGIC PATHWAYS

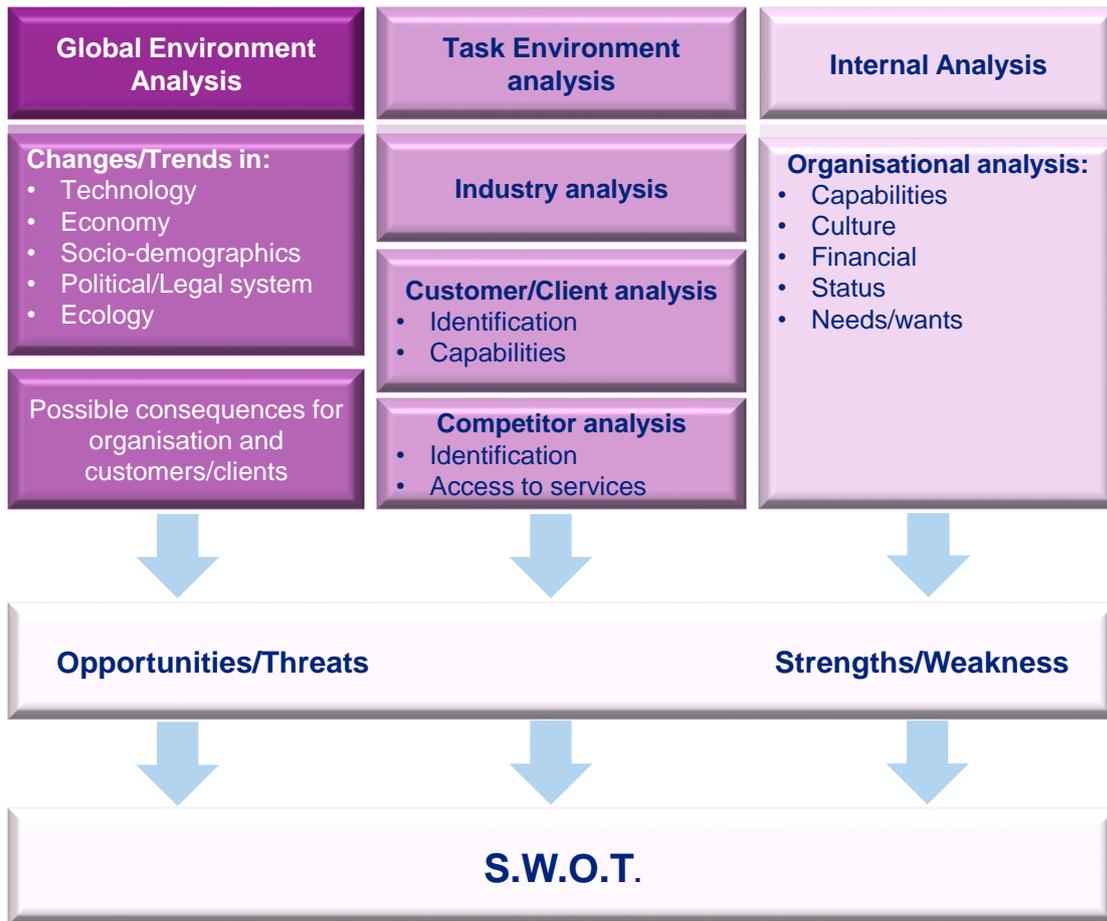
Discuss the possible pathways for your organisation. This demands both imagination and effort.<sup>1</sup>

Management will prepare the majority of input into stages 2, 3 and 4 of the Strategy and Business Planning Cycle (see page 2). These inputs include analysis of the organisation's current position (internal analysis); an audit of the organisation's external and industry environment, including its competitors; discussion papers on different scenarios for the industry's future; and discussion papers on alternative strategies that could be followed.

The diagram on the following page articulates these inputs and analysis and how you can also use a SWOT analysis to gather together the information. At the conclusion of this Module, a range of tools are provided to assist with this analysis.

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<sup>1</sup> CB Carter and JW Lorsch, *Back to the Drawing Board: Designing Corporate Boards for a Complex World*, Harvard Business School Publishing, Boston, 2004, page 159.



A SWOT analysis can be used to identify and classify key strategic factors. The term SWOT is simply an acronym for Strengths, Weaknesses, Opportunities and Threats.

The purpose of a SWOT analysis is to:

- assess the current situation
- develop goals and objectives
- evaluate strategic options
- identify barriers to growth or change.

This is a good tool to bring together the external and internal analysis undertaken above.

If you use the SWOT analysis as your core tool to pull together your analysis, it is important that each item is clearly defined and understood by all individuals involved in the process. It is important to prioritise each item. When undertaking the next steps:

- Give priority to strengths/weaknesses that have a high impact on your organisation's operations and are an advantage/disadvantage in comparison to other providers.
- Give priority to opportunities and threats that have the highest potential impact on the business and have the highest probability of occurring.

The following table demonstrates the framework which you could use to consolidate/present the priority strengths, weaknesses, opportunities and threats for your organisation.

		<i>Internal</i>	
		<b>S</b> trengths	<b>W</b> eaknesses (or limitations)
<i>External</i>	<b>O</b> pportunities	<b>SO</b> list strengths which will enable the organisation to take advantage of opportunities	<b>WO</b> identify strategies that utilise opportunities to remove/minimise weaknesses
	<b>T</b> hreats	<b>ST</b> list strengths that can be used to remove/minimise any threats facing the company	<b>WT</b> identify strategies that can be used to overcome both weaknesses and threats

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## PATHWAY SELECTION

Discussion and selection of these strategic alternatives often takes place in a 'strategy workshop' with management and directors. This process will vary based on the size and the magnitude of change your organisation is dealing with. It might be this whole cycle happens within a few weeks for an organisation facing 100 per cent change in business, or over three to four months for an organisation that might have suffered a minor business adjustment.

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## STRATEGIC DIRECTION DOCUMENT

After the strategic workshop prepare a brief three to four page document that encapsulates the outcomes and can act as a platform for writing a more detailed strategic plan (or, if you need to make quick decisions, this document may become your plan).

Here are some suggested topics that can be addressed in this type of document:

- Longer term organisational goals (qualitative and quantitative), possibly in the form of vision, mission and values and key targets (financial and non-financial) for the whole business and each service line.
- A clear statement of competitive advantage, now and in the future.
- Five or six key issues from the external and internal environment assessment. These are your major issues that must be addressed for ongoing success and in order to achieve your organisation's goals.
- Strategies to address those goals.

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## STRATEGIC PLAN AND KEY PERFORMANCE INDICATORS

This step includes the development of a detailed strategic plan for Board ratification. Make sure the key performance indicators (KPIs) developed are measurable and have time frames attached to them.

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## EXAMPLE

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### STRATEGY

*Develop a fee-for-service on-line psychologist-administered assessment service and market to Providers nationally*

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### KPIs

- Get service to market within 12 weeks
- Generate \$100,000 in revenue in 2012–13

- Generate a break-even position in 2012–13

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#### ANNUAL PLAN AND BUDGET

This strategic plan is then translated into the annual business plan and budget.

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#### IMPLEMENTATION

Management implements the plan.

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#### MONITORING

The Board and management monitor the execution of the strategy.

## TOOLS AND TIPS – EXTERNAL ANALYSIS (PESTLE)

*PESTLE analysis* stands for ‘Political, Economic, Social, Technological, Legal and Environmental analysis’ and describes a framework of macro-environmental factors used in the study and interpretation of those events and trends which influence a business, an industry or even a total market.

Factor	Description
<b>Political</b>	Political factors are how and to what degree a government intervenes in the economy. Specifically, political factors include the development of, and changes to, policy in areas such as tax, labour and environment, and also include political stability. Political factors may also include goods and services which the government wants to provide or to have provided by third parties and those that the government does not want to have provided. Furthermore, governments have great influence on the health, education, and infrastructure of a nation.
<b>Economic</b>	Economic factors include unemployment rates, economic growth, interest rates, exchange rates and the inflation rate. These factors have major impacts on how businesses operate and make decisions. For example, trends in unemployment rates impact the types of services an employment provider might offer. Exchange rates affect the costs of exporting goods and the supply and price of imported goods in an economy.
<b>Social</b>	Social factors include cultural aspects such as health consciousness, population growth rate, age distribution, career attitudes, and trends in consumerism, income distribution and emphasis on safety. Trends in social factors affect the demand for a business’s services or products and how that business operates. For example, an ageing population may imply a smaller and less-willing workforce (thus increasing the cost of labour). Furthermore, businesses may change various management strategies to adapt to

Factor	Description
	these social trends (such as recruiting older workers).
<b>Technological</b>	Technological factors include things such as research and development activity, automation, technology incentives and the rate of technological change. They can determine barriers to entry and minimum efficient production level, and can influence outsourcing decisions. Furthermore, technological shifts can affect costs and quality and lead to innovation.
<b>Legal</b>	Legal factors include discrimination law, consumer law, antitrust law, employment law, and health and safety law. These factors can affect how a business operates, its costs, and the demand for its products.
<b>Environmental</b>	Environmental factors include ecological and environmental aspects such as weather, and climate, which may especially affect industries such as tourism, farming and insurance. Furthermore, growing awareness of the potential impacts of climate is affecting how businesses operate and the services and products they offer, both creating new markets and diminishing or destroying existing ones.

For larger organisations, it may be difficult to identify collective goals on a continuing basis because you provide a wide range of services or products. In this case, it may be more useful to analyse one segment at a time with the PESTLE model, thus focusing on the specific factors relevant to that segment.

A template for a PESTLE analysis can be found on the following page.

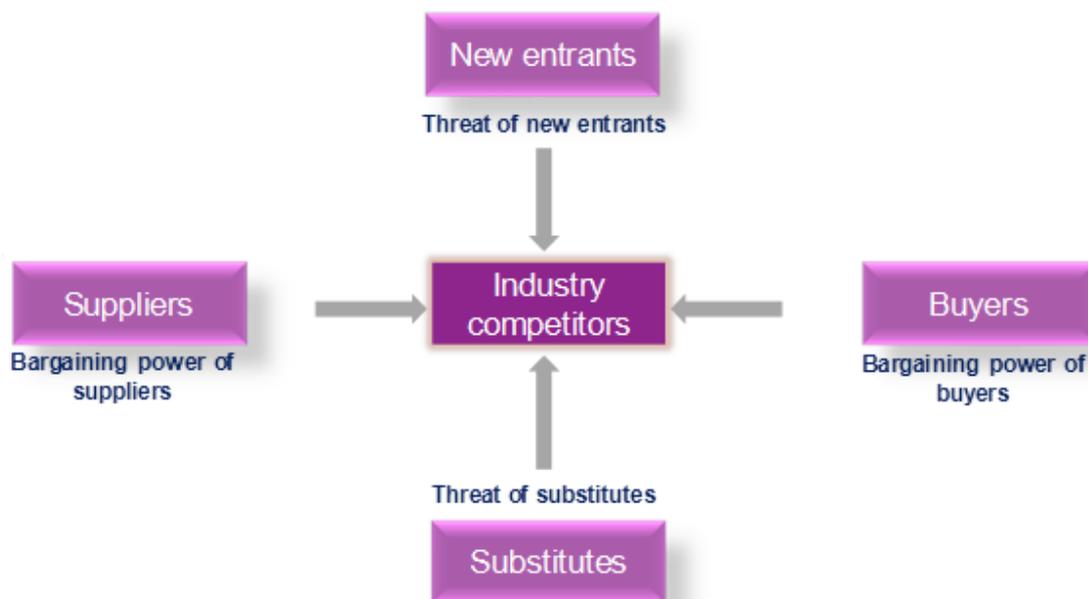
## TEMPLATE – PESTLE ANALYSIS

Factor	Considerations
Political	
Economic	
Social	
Technological	
Legal	
Environmental	

## INDUSTRY ANALYSIS – PORTER'S FIVE FORCES

Another way to consider the strategic implications of your industry and environment is to use the Porter's Five Forces Analysis<sup>2</sup>.

This model analyses the nature and intensity of industry competition in terms of five major forces and determines the level of attractiveness in exploring an industry.



Source: Porter, M. *Competitive Strategy*

- Factors which influence the **threat of new entrants** include: the ability to tender, experience in the industry (track record), financial capabilities in relation to set up costs, ability to service job seekers and employers, brand and economies of scale.
- Factors which influence the **power of suppliers** include: services for job seekers (registered training organisations and other services to assist), supply of job seekers and vacant positions.
- Factors which influence the **power of buyers** include: buyers' requirements (government policy and budget implications), contractual arrangements and fixed fee arrangements.
- Factors which influence the **degree of industry competition** include: growth in the sector and maturing of the market, concentration of Providers in particular metropolitan geographies and the 'star ratings' system.

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<sup>2</sup> M Porter, *Competitive Strategy*, Free Press, 1980.

- Factors which influence the **threat of substitutes** include: numerous providers particularly in metropolitan geographies, quality of service you provide and lack of cost to job seeker if they choose to change provider.

A template that you can use to undertake an industry analysis using Porter's Five Forces is provided overleaf.

## TEMPLATE – PORTER'S FIVE FORCES

Force	Considerations
<b>New entrants</b>	(How easy is it for new entrants to enter the market?)
<b>Buyers</b>	(Who funds the services and what are their requirements?)
<b>Suppliers</b>	(Suppliers might include job seekers and employers)
<b>Substitutes</b>	(Are there other organisations / services that can meet industry requirements?)
<b>Industry competitors</b>	(How competitive is the industry? Are there opportunities to work collaboratively?)

## ASSESSING YOUR INTERNAL ENVIRONMENT

Competent people and capable organisations are more likely to be able to deal effectively with the turbulent environment in which they operate. A solid understanding of existing organisational capabilities and a clearly articulated strategic intent that defines the organisation and its market can assist you to understand your existing internal environment.

The question is: 'What is it that your organisation does well? What are its strengths?'

Prahalad and Hamel<sup>3</sup> identified three 'tests' that help determine if something is a 'core' capability for the organisation or a 'core' competency for an individual. These are:

- **Relevance:** A core capability must give your customers something that strongly influences them to choose your product or service. If it does not, then it has no effect on your competitive position and is not a core capability.
- **Difficulty of imitation:** A core capability should be difficult to imitate. This allows you to provide products or services that are better than those of your competitors. If you are continually working to improve these, it means that you can sustain your competitive position.
- **Breadth of application:** A core capability should be something that opens up a good number of potential markets. If it only opens up a few small, niche markets, then success in these markets will not be enough to sustain significant growth.

Areas to assess within your organisation include:

- financial resources (assets, extent of borrowing, level of working capital)
- culture (flexibility, willingness to change, attitudes)
- products and services (technical backup, quality, range)
- management (structure, leadership style, communication)
- physical resources (space, capacity, capital expenditure requirements)
- staff (capabilities, motivation, recruitment)
- processes and systems (information system, administration system, operational processes).

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<sup>3</sup> CK Prahalad and G Hamel, 'The Core Competence of the Corporation', *Harvard Business Review*, vol. 68, no. 3, 1990, pp. 79-91.

## STRATEGIC PLAN FORMAT

### SUMMARY OF YOUR ORGANISATION'S CURRENT POSITION

- Current corporate and business level strategy
- Financial performance – current year and preceding two years
- Operational performance – current year and preceding two years
- Discussion of performance

### SUMMARY OF EXTERNAL ENVIRONMENT

- General environment analysis
- Industry analysis
- Competitor analysis
- Summary of your organisation's external strategic position, including major threats and opportunities

### ANALYSIS OF THE INTERNAL ENVIRONMENT

- Key core competencies as the basis for sustainable competitive advantage
- Major stakeholder analysis
- Summary of your organisation's internal strategic position, including major strengths and weaknesses

### KEY ISSUES OR CRITICAL SUCCESS FACTORS ANALYSIS

- Summary of the major issues that must be addressed for future success

### PROPOSED CORPORATE, BUSINESS AND FUNCTIONAL / OPERATIONAL STRATEGIES

- Summary of the proposed corporate and business level strategies including goals
- Supporting functional / operational strategies
- Discussion of the rationale behind the choices made

## ACTION PLANS

- Major actions by function / operational area
- Names of individuals responsible for each major action
- Dates by which each major action is to be achieved

## QUANTIFIED PLANS

- Detailed operational and financial plans (one year)
- General operational and financial plans (major events – one to three or more years)<sup>4</sup>

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<sup>4</sup> G.Hubbard., *Strategic Management: Thinking, Analysis & Action*. Sydney: Pearson Education (2004)