



Building Cash Cows™  
Improving Quality of Life™



## The Strategic Edge™

Insights for improving profits, cash-flow, and quality of life

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### Strategic Planning "There's Gold in Them Hills"

Why do some companies seem to thrive in good times and bad while others don't? Good strategic planning is the secret to maximizing profit and growth potential. According to Dr. Porter at Harvard University, *50% of company profits are tied to operational excellence and the other 50% are tied to strategy planning.* Creating a formal strategic business plan will vastly improve sales, profits, cash flow, teamwork, and communications. But you may be thinking, Harvard graduates work for big companies, does it work for small and mid-sized companies? Most definitely, "There's Gold in Them Hills", but it takes good strategic planning to mine it. Following are some examples.

**Company A** was a highly respected subcontractor in the home building industry that held about a 40% market share in its niche along the Front Range. However, this \$10 million company's financial performance ranked in the bottom 25% of the industry. The owners requested our assistance in developing strategies to increase profits and cash flow, grow the business, establish a sound financial structure, establish formal business planning and develop an organizational structure that would be self sustaining. An evaluation of their pricing, cost and margin structure, and financial structure was undertaken. After determining that their margins were too low, their capital too thin, and they were trying to grow too fast, strategies and tactics were identified to specifically address these issues. By putting these strategies and tactics into a strategic financial forecast the company could see how to "tweak" these strategies and tactics into a set of very specific goals and lay out action steps to get them into the top 25% of industry financial performance. This planning gave them less uncertainty, verified they were on a mission possible and focused their energy and efforts. It helped them determine the right revenue goal for the year and gave them a clear understanding of how to significantly improve their profits, cash flow, liquidity and debt-to-equity structure. Within three months, profits increased \$40,000 to \$60,000 per month and they ended the first year with an increase in profit and owners' compensation of \$748,000 over the previous year. At mid-year the company refinanced. By the end of the first year they had already reach their financial goal of being in the top 25% of the industry. But there is more.

**In year two of Company A** we continued the strategic planning process by developing a formal written strategic business plan to define and improve their complete position in the industry in order to protect their market share and grow the business. They rolled out the strategic plan in April of year two. But, in the middle of year two the bottom fell out of the home building industry. Company A's revenues immediately fell by 50%. Competitors were downsizing left and right. Some went out of business and all the rest, except

Company A, were drastically cutting cost. Company A had their formal strategic business plan to compete, they were focused, they were ready and they had confidence it would work so they continued to roll it out. Within six months Company A replaced all of the revenue volume it lost, pushing its market share up to about 65%. It finished year two with increase profits and owner's compensation of about \$577,000 over the base year. The owner and his wife gave \$176,000 to charities and began taking two days a week off.

**So what exactly is a Strategic Business Plan?** Let's start with what it is not. It is not a budget. It is not a weekend retreat where you set goals for the next year. It is not a management meeting where you set goals and action steps for the next year. *Strategic planning is a comprehensive blueprint of strategies* to build a business, including clearly defining what the business is you're going to build, determining what you are trying to accomplish and selecting strategies to position the business to outwit the competition. It is about selecting key strategies and defining key objectives for functional and cross-functional components of the business. Strategic planning is the art of devising a framework of schemes that determine the nature and direction of a company for gaining their desired end result. In business, it also includes the process of engineering schemes that determine the nature and direction of your company for meeting the needs of your market and outwitting the competition in order to accomplish your Mission.

Following are more examples of the effectiveness of formal strategic planning.

**Company B** was a \$3 million company that had been in business over ten years. We did strategic financial planning, a formal strategic business plan and formal management team training and development with them. They are now the 800 lb gorilla in Colorado. In their niche, no one even comes close to them. And their competitors report to them that it is nearly impossible to get one of their customers away from them.

**Company C** was a 15 year-old \$20 million business making 15% pretax profits. We facilitated a weekend retreat for them because they had a hard time focusing and getting their strong willed leadership members on the same page. After the retreat and six months of developing a formal strategic business plan they rolled out their new strategic blueprint to meet their growth objectives. Three years later they were a \$100 million, very profitable company.

**Company D** was a \$4.5 million business that was faced with the probability of losing a customer that represented 40% of their revenue and 60% of their gross margin. We worked with them to develop a strategic financial plan to improve financial performance and develop a formal strategic business plan to cope with the loss of their customer. They finished year three with \$6.3 million in revenue. All three years have been profitable. This year their target is \$7.8 million and a tidy net income.

**Company E** was a \$2.3 million business in 2005 doing business nationally and slugging it out with competitors doing billions in revenue. They had no working capital and after 23 years in business had \$108,000 in accumulated earnings. After three years of strategic financial forecasts and formal strategic business planning they finished the year with \$5 million in revenue, have developed a second manufacturing source overseas and have established a dynamic national distribution network that is significantly growing. They also have new product lines coming on board, have decreased production costs and are realistically forecasting to bring in \$6 million of revenue and \$400,000 in profits in 2009. The new networks of national customers they are establishing are expected to produce at least \$8 million of revenue with a 12% profit in 2010.

In closing let me emphasize that in bad times or good time, **there is absolutely nothing you can do, no money you can spend, no cost you can save or no high payoff activity you can focus on for the growth and financial health of your business that will compare with developing a formal strategic business plan. None!** “There is gold in them hills”, do you want some of it? If you do, strongly consider the development a formal strategic business plan and go mine the gold. You will forever be glad you did!

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