

BEST BUSINESS PRACTICES

A Business Plan: The GPS for Your Company

Many of us use smartphones' or navigation systems' Global Positioning System (GPS) to get us from point A to point B. We can input our preferences into the system (i.e., shortest distance, most use of freeways, etc.) and the system will then select the best route. When we use a GPS, we have the added confidence that we will not lose our way and that we will get to our destination as planned with few or no surprises. It only makes sense that we should plan as carefully for our businesses so that we can be sure we are headed in the right direction. A well-documented business plan helps you map out the journey to take your company from where it is today to where you want it to go—identifying milestones, obstacles, and desired routes along the way.

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If You Fail to Plan, You Plan to Fail

With a multitude of issues competing for your valuable time, committing time to formally plan your company's future may seem like a daunting task. However, operating without a written business plan is even more difficult and probably more time-consuming in the long run. A good business plan helps you deal with changes effectively and can often mean the difference between long-term success and failure.

Many entrepreneurial Third Party Administration (TPA) firm owners might argue that they've operated for years successfully without a business plan. In a nutshell—that was then, and this is now! We live and work in a rapidly changing world. Our industry is directly impacted by the economy, tax legislation, regulation, and technological changes. It is extremely important to have a plan and a system to measure success. A business plan forces you to look inward with a critical eye and identify your strengths and weaknesses. It also requires you to look outward and perform an environmental scan, analyzing the industry, the competition, and

identifying potential opportunities and threats. For example, how will the new fee disclosure rules affect your existing book of business? Have you developed a plan to ensure you proactively retain your current plans? Equally as important, have you thought about what you need to change in your operation to accommodate the new fee disclosure rules, and how you can use fee disclosure as a way to open doors and get new business?

Kenneth G. Ingham, MSPA, MAAA, EA, AIFA[®], of Ingham Retirement Group in Miami, Florida, had been in business for more than 30 years and knew he needed a business plan to get his firm to the next level. After going through the business planning process several years ago, Ken explains, "In most companies, people at the top know where they are going—but the employees who are struggling to get the work done are often in the dark about the company direction. If you don't tell them where you want to go, you probably won't get there. The business plan helped us communicate our direction to the employees and also helped us find new ways to thank the employees for the good jobs they were doing."

As Ken points out, one of the most important audiences for your business plan is your company's employees. Remember that your business plan is your company's GPS—so use it to communicate your vision of where you want the company to go and the company's goals and objectives, which will provide your staff with an understanding of the route to get there.

Business plans are also essential for start-up firms, and they are an important element when trying to obtain funding or when buying or selling a business.

Core Questions a Business Plan Must Answer

The primary purpose of your business plan is to define your business, identify your goals, and create a financially sustainable business. It is a means to keep you on track and help you make the right decisions for your firm. As you develop your plan, you should carefully consider the core questions below.

- What business are you really in? What is the overall mission of your company and what are your corporate values?
- What products and services do you offer?
- Who are your potential customers and what are your target markets?
- What distinguishes you from your competitors?
- What motivates your customers to buy from you?
- How will you reach potential customers and retain the existing ones?
- How will you structure your operation for success today and in the future?
- How will you achieve enough profit to sustain and grow your business?
- How will you ensure conformity to industry best practices?

This first question—what is your overall mission—may seem obvious, but the answer is not always easy. Are you in the business of administering retirement plans or gathering assets? Are you simply gathering as many plans as you can or are you really in the business of selling consulting hours? One can learn from the example of the jewelry store owner who realized he was spending most of his time and making most of his money repairing jewelry and watches, but was spending most of his money carrying inventory and selling jewelry. He ultimately decided that he was in the repair business and discontinued the sales operations, and his profits greatly improved.

The last bullet above is also especially interesting. The ASPPA task force, working in conjunction with CEFEX to establish best practice criteria for TPAs, determined that having a written business plan is a best practice that must be complied with to achieve the ASPPA Retirement Plan Service Provider Certification. As a result, the argument for having a business plan is now even more compelling for those TPAs in pursuit of excellence.

The Main Components of a Business Plan

Many people think of their budget as their business plan, but it most certainly is not! You first need to

specify your goals and determine what direction your company is headed before you can truly budget. An effective business plan serves as a tool to ensure that your financial decisions and your budget are in synch with your goals.

A well-written business plan incorporates the following information:

Executive Summary

Although this summary is typically the first item in your business plan (other than a Table of Contents, perhaps), it is usually the last thing to get written. It highlights all the major points from each section of your business plan.

Company Overview

This section should include information on the history of your company, type of ownership, and all locations and/or divisions. It should state why you are in business (your mission and values) and identify your primary goals and objectives. Just as your business plan serves as your firm's GPS, your mission and values provide the moral compass that help steer your decisions. The mission and values statements allow you to promote a corporate culture that supports your vision. The goals and objectives are the milestones, or waypoints, along the journey. Tying corporate goals to employees' individual goals helps your employees understand how their roles fit into the bigger picture.

Description of Products and Services

Describe your current products and services and indicate any future products and/or services you are anticipating. Identify the type of customers you serve, your target audience and how your products and services benefit them.

Market and Competitor Analysis

Define your external business environment and identify opportunities and threats. This section should include an industry overview, a description of market segments, market trends, and information on your competition.

Company Strategies

This section should outline the various strategies that your company will use to carry out your plan and accomplish your goals and objectives. At a minimum, the plan should address the positioning of your products and services, as well as strategies for marketing, sales, technology, and business continuity. It is

important to articulate your competitive advantages and identify your strengths and weaknesses. The planning process prepares you for the uncertainties of the future by giving you a framework to formulate and communicate alternative strategies.

Management and Personnel

Identify the key personnel and management team(s). This section should include information on the overall organizational structure, as well as any gaps in management or personnel and how these issues will be resolved. How you will recruit and retain employees is another important part of this section of the plan.

Financial Review

The financial information should include current and projected information covering a period of at least four years (two historical and two projected). Include Income Statements, Balance Sheets, and Cash Flow Analysis, and provide an overview of the assumptions that went into the projections in order to support your projected growth. The business plan provides a framework for you to create and analyze financial projections, and the projections should take into account the financial impact of all identified goals and objectives. (Note: Although the financial section is critical to management, some firms choose to omit this section from the business plan document they share with employees.)

Appendix

The appendix serves as a tool for you to place important information that does not belong in the main body of the business plan. Common items include biographies of key personnel, company accreditations, list of credentialed employees, company press releases, community service awards, etc.

The Business Planning Process

To begin the process, assemble your in-house planning team. Select a group of owners, managers, and/or employees to help with the project. Most firms utilize an outside consultant, ideally one who knows the industry, to lead the project and provide insight as to how other similar firms are operating. A consultant offers a fresh objective view, with a perspective more like that of your customers, from the outside looking in. The consultant can facilitate strategic planning sessions, brainstorming sessions, “SWOT” (strengths, weaknesses, opportunities, threats) analysis, and ultimately provide you with a well-documented business

plan. A consultant will keep the project moving and establish timelines and milestones so that you and your management team can focus on what you do best—running your business. A consultant can also help filter out some of the more subjective elements of your analysis, helping you to see your business and its prospects more clearly. You should appoint an in-house “point” person to coordinate with the consultant as needed.

Developing a business plan requires you to think about your business and express your ideas in a systematic way. You can expect the process to take two to three months if it’s your first plan. Having a well-documented business plan in hand is not the only advantage—the business planning process itself requires that you spend quality time focusing on your business, considering all external and internal factors as you develop your plan. You will “know” your firm much better as a result, and you will be much clearer on the direction your firm should take.

A Living Breathing Document

A business plan is never “done.” You must work to keep it alive by reviewing your plan periodically (at least annually) and making modifications as necessary. If you experience any significant changes in your business environment (e.g., fee disclosure regulations, acquisition of another firm, etc.), immediately review your plan and strategize to determine the impacts on your firm and adjust your plan accordingly. Revise your goals and objectives and alter the relevant sections as needed to pursue the alternative strategies you have identified.

Ken Ingham’s experience underscores the momentum that a business plan can generate. He notes, “As a result of establishing the written business plan, we were one of the first firms to achieve the ASPPA certification, which strengthens our competitive edge in the marketplace. In addition, our business continues to improve in other ways. We held a company meeting to share the plan with our employees and to reinforce the culture we wanted to cultivate. We set up a marketing team to work on a detailed marketing plan, we strengthened our brand and updated our collateral materials, we created a new employee reward system, we refined our budgeting process, and we increased responsibilities to our mid-managers for carrying out the plan’s action items. We feel we now have an even better chance at success and growth than we’ve enjoyed in the past. We understand that our plan is a living, breathing document that we will change and update as we grow.”

A business plan helps you create a culture that recognizes your firms' goals and objectives and ensures that they are implemented. Generate excitement when you present the plan to the employees so they will want to make the journey with you and help your company get to its desired destination. The employees will provide the "energy" that will bring power to the GPS, keeping your business plan alive. Refer to your business plan and goals often—in business strategy meetings, sales and marketing meetings, company

meetings, employee reviews, etc. Include your mission and vision in company newsletters, employee handbooks, and your Web site. Assign accountability to goals and objectives and use metrics (think "trip odometer") to measure and evaluate your programs and initiatives. Solicit feedback from everyone when you are ready to review and update your plan. If you keep the energy surrounding your business plan at a high level, then your plan will naturally stay "alive and well." ■