

## Business Plan

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Nearly 15 years ago, when I made my first business plan in the corporate world, life was so simple. Pick up marketing, production, cost and capital expenditure information from the relevant departments. Incorporate the data into a spreadsheet. Lo and behold, the business plan was ready for 5 years, precise to the nearest rupee!

The pace of change in the environment since then is quite remarkable. How can businesses plan for the future in such an environment?

Peter Drucker (*Management Challenges for the 21<sup>st</sup> Century*, Harper Business, 1999) lists five phenomena that can be considered certainties -

**A The collapsing birthrate in the developed world**

Business strategy has to consider the role of aging population

**B Shifts in the distribution of disposable income**

Government, Health Care, Education, Leisure were the growth sectors during 20<sup>th</sup> century. Institutions – business as well as non-business – will have to learn to base their strategy on their knowledge of, and adaptation to, the trends in the distribution of disposable income and, above all, to any shifts in this distribution.

**C Defining Performance**

Institutions will have to think through what performance means. This used to be obvious and simple. It no longer is.

**D Global Competitiveness**

Any institution – and not just business – has to measure itself against the standards set by each industry's leaders any place in the world.

**E Growing incongruence between economic globalisation and political splintering**

Business growth and business expansion will increasingly be based on structures that are economic units and not legal – and therefore not political - units

These certainties would in many ways set the canvas for any company's business plan. Uncertainties created by rapid change have however transformed the business plan paradigm –

I **Reduced time horizon for the plan** – Organizations definitely need a broad vision of where they see themselves 10 years down the line. But setting out specific approaches, and projecting the financials, are no longer realistic even for 2 years. In fast track industries like telecom, the business plan horizon has crashed to a year.

II **Increasing role of reactivity** – For long, it has been fashionable to say that organizations need to be proactive in their strategy. But, how can one be proactive in environments of turbulence? Organisations have to build competencies in reacting. Microsoft's Windows and Internet Explorer products are good examples of reactive strategy at work.

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Microsoft was not the innovator in this software space – but it has certainly extracted the maximum value out of the space.

The reaction imperative has led to two changes –

- A Strategic Themes – Organisations have to perforce work on multiple strategic themes. For instance, handset manufacturing companies would do groundwork on multiple technologies simultaneously. One of the technologies would finally become the preferred platform, while the work on the other technologies could be the basis for contingency plans or future products.

A commercial bank may focus on wholesale banking, but it would continue investing some resources to understand the retail banking dynamics – just in case a change in focus becomes necessary. When the decision is taken to get into retail, competence would be measured in terms of the speed with which the business can be scaled up.

The challenge in the business planning process is to identify relevant strategic themes without spreading resources too thin. Multiple strategic themes that have different cost and revenue implications make it difficult to freeze on financial projections. The business plan would thus veer towards a set of scenario-linked numbers. Probabilities could then be assigned for each scenario to determine numbers based on probability-weighted expected values.

- B Flatter organization structures and greater delegation – Executives at the periphery of the organization (who deal with the outside world) have to assume critical roles, both in terms of feeding information into the company and in implementing the strategic direction. The need to understand the organizational orientation and management psyche has never been greater.

In this respect, developments in information technology and telecom sectors have been a big help. Organisations need to effectively leverage on these means to communicate better.

- III **Increased coverage of the Business Plan** – Position in the value chain is one of the determinants of any organisation's business model, and hence its performance. The business plan can however no longer be focused on the position that one occupies in the chain. For instance, an automobile company can no longer look at only its input, operations and output. It has to work towards cutting the costs of its ancillaries, as an alliance-partner, so that the cost of its final product is minimized. Similarly, it has to ensure the profitability of the dealer network so that they continue to sell its products. Thus, the business plan covers a wider range of activity.

Any business plan, in the current scenario of rapid change, needs to factor the certainties relevant to its circumstances; has to be prepared for a sensible planning horizon, for a range of activities that is appropriate in its context; and should provide for flows and processes that quicken response times.