

PLANNING FOR PROFIT

SUMMARY

Planning is the process which will let you optimize profits in a good economy and minimize losses in a poor one. Although the particular planning techniques discussed here will not provide all the answers to your short and long term needs, they do offer a highly practical and successful approach which will aid you in developing your own planning system, whether you run a small family-owned plant of ten employees or a large special machine company with several hundred employees.

PRINCIPLES OF PLANNING

It's important to realize that sound planning first demands that you take time out from running the business simply to sit down and think. The plans or goals developed from these thought-sessions must then be put down on paper in some chronological order. Although it is imperative to keep in mind that these plans can change during the course of the year, and may have to - you will find that good planning will help you work with those changes rather than in spite of them. Finally, through the principle of frequent review throughout the year, month-to-month deviations from your original plan can be corrected, and measures can be taken to prevent the company's performance from going so far off the track that the entire plan breaks down and has to be scrapped.

MAIN POINTS OF GROWTH

In the contract tooling and machining business there are four elements necessary for growth. They are:

1. **People:** with intelligence and the ability to perform. They're the most important asset any company can have.
2. **Management:** the art of getting things done through people. Owners are responsible for developing good managers through a solid program of management education, which should include both in-house courses as well as outside classes, seminars or workshops offered by local colleges, universities, trade associations or other competent organizations.
3. **Organization:** Check your present organizational structure. Pull out your old organizational chart, if you have one, and examine it. If you haven't made any changes in your lineup within the last 12-18 months, you're not

getting the most from your people or equipment. If you are an aggressive company, your business will have changed enough so that changes in your management team are also necessary.

4. **Acceptance of Change:** People must be taught that change is the healthy, inevitable result of growth. It can and should develop more job security rather than less. Good communication between owner and employee is essential in developing and maintaining this attitude.

STAGES OF CORPORATE GROWTH

There are three distinct levels of corporate growth, each requiring its own particular plans, decisions and changes. The first stage, or "survival period," covers the company's first eight to ten years as it struggles to its financial feet; growth is slow, work scarce and the chief pressure is getting enough work in and out to meet the payroll and pay the bills.

The middle, or "growth," stage begins with a sudden upward jump in sales volume which continues to increase dramatically each year thereafter. This dynamic growth is supported by the solid base of good employees, good customers and good credit developed during the leaner "survival" years. In this second phase, most authority still resides with the owner-manager.

At some point - and only an owner can determine this - it becomes financially and organizationally impossible to continue growing at such a dynamic rate. Growth must either slow down and stabilize or the company will run the risk of going under. When signs of financial and organizational over-train begin to appear, it's time to inaugurate the third, or "transition stage," of growth by slowing your company down to a rate of annual real growth, approximately the same as your after-tax Return-on-Equity ratio (Your net profit after

taxes is a percentage of your net worth). After this pullback, begin to establish financial stability. An excellent reference is NTMA's annual Operating Costs and Executive Compensation Report. Also, move to establish long-range organizational stability by delegating or sharing more of your responsibilities with others.

SHORT TERM PLANNING

Corporate goals - a set of directions for your company - are as vital to the success of a small business as they are to the success of a conglomerate. They should be simple, broad statements of the objectives which you, as owner or chief executive officer, want your company to pursue in the coming year. These goals need not change annually, but they should be carefully reviewed once a year to determine whether they are still appropriate to your organization.

PLANNING FOR THE NEXT TWELVE MONTHS

It's recommended that you start developing your annual short-term plans approximately five months before the beginning of the year. Here's a suggested schedule: August: With your key people sit down and discuss your company's capabilities and capacities. How many do you have that you didn't a year ago? How many more people? What's your crane load? How many square feet do you have? What equipment will you buy next year?

September: Present these capabilities and capacities to your sales department and ask for their input: "This is how much we can handle. How much can you bring in?" Their feedback must be thorough, specific and accurate. They should ask: What kind of programs are our customers planning for the next 1-3 years? When will they open up? Who are our competitors? What rate per hour can we expect?

October: Meet again with your key people. Evaluate the information accumulated in August and September in light of the present economy and then determine your specific sales goal for the coming year and your desired profit percentage. Also at this time, discuss with your key people, one-on-one, the objectives you expect of each. Ask each to consider these objectives, the corporate goals and next year's sales goal in drawing up a Game Plan for their areas of responsibility (e.g., finance, engineering, manufacturing). They should develop their own personal plans, time-tables and budget for achieving their Game Plan. When all Game Plans are completed, meet with each key manager again for final approval of their plans. It's recommended that you review each person's Game Plan privately once a month or at least once a quarter thereafter. Frequent review keeps actual performance from deviating too far off the track. Make their Game Plan your Game Plan.

November: Take your key people away from the plant for a one to three day planning session to discuss the goals and Game Plans developed during the past three months. Treat them to business in comfortable surroundings (a facility at a nearby, but not local, university or a nice country club or resort facility). Change the environment and isolate yourselves from everyday distractions. It's a great way to release creativity! During the planning session, as a group:

- Present and discuss all individual Game Plans.
- Finalize corporate strategy for next year.
- Develop an imaginative theme for the coming year which will capture the essence of your outlook (e.g., "It's a Whole New Ball Game," "Make it Happen"). It will serve as a rallying point for all of your people. Share it with them through signs, posters, etc., throughout the plant.

December: Using all the information compiled at the planning session, draw up a set of Master Game Plan charts; a series of large easels which can be updated every month to track progress toward your yearly goals in such areas as hours sold, sales out, direct labor hours, etc. These charts should be used first in December at a general meeting of all your management people; they will help you share with your staff goals and expectations for the coming year.

Thereafter, Master Game Plan charts should be updated and discussed quarterly at group meetings of your entire management staff. Remember, constant review of your progress will keep you from deviating too far from your original goals.

LONG-TERM PLANNING

As a basis for sound long-range planning, begin by considering your present corporate goals, trends in the national economy, government policies and international relations. Project how trends or changes in these areas may affect your business during the next three years.

Ask your sales people to develop a three-year sales plan.

Note: Every effort should be made to keep these predictions as accurate as possible. The following vital areas should be included in this sales plan:

- Total sales: What level of sales can be expected for each of the next three years?
- Customer volume: Who are your present customers? What new ones will be cultivated? How much business can be expected from each?
- Rate per hour: Who are your competitors? What rates will they offer?

Using this information, have your sales people develop a specific three-year plan of attack to insure that their forecasts are actually achieved as closely as possible. Their plans might include an advertising campaign to solicit new customers or even the addition of another salesman or manufacturer's representative to help handle new accounts.

Your three-year, or long term, plans should include the following considerations:

- Profitability: How much can you expect?
- Finance: How will you finance the new growth expected from this three-year plan?
- People: What will your personnel needs be during the next three years? Don't wait until the last minute to locate skilled workers and professionals.
- Capabilities: Every area of your company (manufacturing, data processing, accounting, etc.) must be staffed and geared to handle the sales volumes you are projecting.

- Capacities: Is your physical plant large enough in every area to handle the increased volume of work? Do you need more space? More equipment? New equipment?
- Diversification: Remember that too much business from any one industry is dangerous in the long run. Establish a solid diversification program.
- Material: When the material cost exceeds 35% of the total sales dollar in a given job, its profitability should be very carefully considered. Be sure to adjust your prices accordingly.
- Present your banker with a written copy of your short term (1 year) plan. On a monthly or quarterly basis, review your progress - or the lack of it. Be honest.
- Share your long term (3 year) plans with your banker.
- Meet with your banker at the end of each year for a final review of your overall performance for that year. Discuss your plans for the coming year.

Planning will let you optimize profits in a good economy and minimize losses in a poor economy.

If these predictions are only 70% right, you'll do fine!

BANKING RELATIONS

Relationships with your banker should be as good as, if not better than, relationships with your best customers. By frequent and honest communication, you will develop credibility and confidence - two intangible but valuable assets which cost only your time. Your banker will be much more willing to finance your plans when he or she has more than an outsider's view of what's happening in your organization.

The following are a few suggestions which will help improve your banking relations:

This BMA was reviewed by Barry E. Miller, Financial Management Consultant, Reading, PA. The Barry E. Miller Company prepares the Operating Costs and Executive Compensation Report and the Wage and Fringe Benefit Report for NTMA. Mr. Miller serves as a consultant to NTMA members and has appeared as an expert witness on behalf of member companies.