

THE BUSINESS PLANNING POCKETBOOK

3rd Edition

By Neil Russell-Jones

Drawings by Phil Hailstone

“Excellent - clear, concise and very practical.”

Kevin Jones, Group Planning Executive, Norwich Union

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PLANNING THEORY

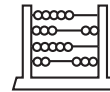
PLANNING STYLES



Planning styles differ from organisation to organisation. Example styles include:



Top-down where the initial plan is developed centrally



Numbers based (traditional – focus on budgets)



Bottom-up where contributions are aggregated in stages



Zero Based Budgeting – ZBB



Scenario based



A **blend** of these two, where guidelines are set centrally and units are allowed to prepare their own plans within this framework



Economic value analysis



Informal planning



Balanced scorecard

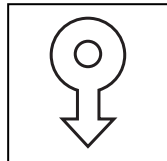
These are explained in the following pages.

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PLANNING THEORY

PLANNING STYLES

TOP-DOWN



This type was probably the most common in organisations where formal planning processes existed, although now many others are being used.

Plans are set centrally and cascade down the organisation. They are often arrived at without proper consultation and discussion, setting arbitrary targets. Those receiving the plan and its targets are, for the most part, only rarely consulted and end up trying to achieve something that they have neither bought into nor developed.

Not surprisingly, this type of planning is not effective, especially if the planners do not take into account the circumstances of those executing the plans.

A theoretical set of targets might be unachievable in practice, and cause many problems for those at the sharp end.

PLANNING THEORY

PLANNING STYLES

BOTTOM-UP



This type of planning starts with the lowest unit that plans and then aggregates the plans together to yield, ultimately, the final plan for the whole organisation.

A set of guidelines is usually established (though not always), and units produce their own plans within this framework. An aggregation process will ensure consistency of output, reducing in detail as it flows up the organisation.

This method involves everybody and takes their input, but it can take a long time and be very repetitive.

- Often very numbers based – strong focus on budgets
- Often leads to conflict as the units try to set themselves unduly easy targets that do not equate with what the organisation needs
- Can get greater buy-in from units than with Top-down, as they are more involved in it. See also ZBB

PLANNING THEORY

PLANNING STYLES

BLEND



This is a combination of the two preceding styles. A general plan is constructed at the top level and then merged with the results of a bottom-up exercise.

Usually there is a central co-ordinating body which conducts research, gives macro-economic forecasts and sets general guidelines as well as the framework. It acts as the aggregating and the initial challenging unit.

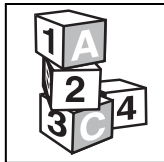
The results are then reviewed, challenged, altered and consolidated.

Economic capital planning often takes this approach.

PLANNING THEORY

PLANNING STYLES

INFORMAL PLANNING



This is usually found in smaller and medium sized organisations where, for example, the directors meet and discuss next year's targets and goals. It is often found in successful entrepreneurial organisations. The key advantage is that it is not a time-consuming exercise, and is very flexible.

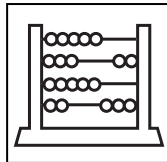
Problems arise, however, when the business environment becomes more complex, and this type of planning proves inadequate for control and measurement.

This can often have disastrous consequences for firms unless they move smoothly to other, more disciplined, methods of planning.

PLANNING THEORY

PLANNING STYLES

NUMBERS BASED



Probably the most common style of all, and may be used in conjunction with another method. It gives great comfort to people as, by concentrating on the quantitative rather than the qualitative, it appears more certain. It is easier to produce a cashflow than to understand the likelihood of people to prefer your product, but you can lose sight of the bigger picture.

One of the criticisms levelled against GEC in the latter part of Arnold Weinstock's reign was that planning was purely based on cashflow, ignoring other aspects, and that this led to its lack of vision.

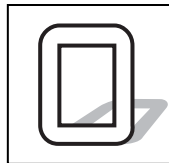
All plans, of course, involve an element of numerical analysis, but relying wholly on numbers has largely been discredited now and a broader perspective is more commonly taken.

Given that after Weinstock relinquished control, GEC got it all wrong and disappeared, perhaps his approach had more merit than many supposed!

PLANNING THEORY

PLANNING STYLES

ZERO BASED BUDGETING – ZBB



Zero based budgeting is a numbers based approach that, unlike conventional budgeting, takes no account of previous budgets and effectively starts with a blank piece of paper.

Historically many budgets were 'incremental': that is, they took last year's figures and amended them slightly (usually up).

With this approach (also known as Priority Based Budgeting) there is no 'base case'. It is, rather, based on what the needs of the organisation are, and how the relative priorities of projects or opportunities are ranked. This may be within a unit, or across an organisation. The latter approach involves what is known as a Star Chamber, where all opportunities are reviewed by the management: each in turn.

Each opportunity is ranked not only in relation to other opportunities, but also as to how they support the strategic priorities of the business going forward. In this way all opportunities obtain an agreed priority and accordingly a budgetary allocation.

About the Author

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Neil is an author and a consultant. He has written many books and papers on business subjects. Other titles in the Pocketbook series include: *Managing Change*, *Decision Making*, *Marketing and Strategy*; and for other publishers *CRM*, *Risk Evaluation*, *Your Own Allotment* and some fiction. He has worked internationally with many organisations in a variety of countries assisting them to improve their performance. Neil is a regular international speaker and has often appeared on radio and TV.

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