Lean Business Planning
For Franchisees

By

Tim Berry

Why Plan Your Business?

What do you want from your business? Wealth? Fame? Making a better living? Maybe you want more independence. Maybe you want to be able to take time off to coach the kids' soccer. It's about focus, priorities, setting expectations and tracking results. That can help you get what you want from your business. I promise.

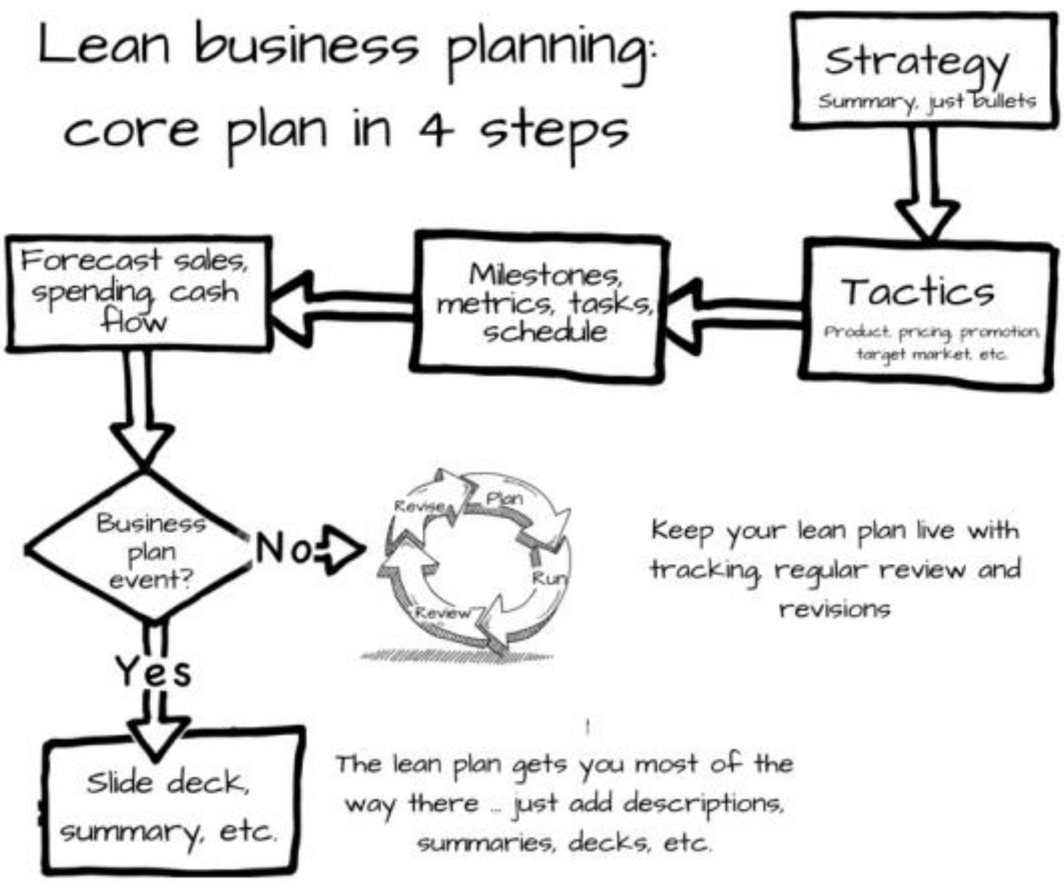
Don't sweat the big business plan. Skip the descriptions and explanations. Just do a lean plan. It will help you get where you are going without bogging you down. It's fast, easy, and practical.

Who doesn't like planning a vacation? Decide where you're going to go, look at the activities, attractions, restaurants, hotels, and the route. When I was a kid, we'd get together before our big backpacking trips and plan routes, food, what to pack. As an adult, I'd join my wife planning our family vacations. Planning is part of the fun.

And planning your own business? That too. Set your strategy, and the tactics to execute it. Figure out pricing, marketing, product. It's dreaming and telling stories, and then adding what it takes to make them come true. It's making things happen. It's going from a vague, daunting, hard-to-manage uncertainty to specific educated guesses, linked together, so you can deal with them. Get things done.

Do a Lean Business Plan

Lean business planning adopts the ideas of small steps, constant tracking, and frequent course corrections to planning. It includes only what adds value, without waste. It starts with a core business plan for internal use only, just big enough for optimizing the business. A lean business plan has four essential parts:



First: Strategy Summary

This is a bare-bones description of strategy for management use only. There is a very real business use for a strategy summary as part of every business plan, even a lean plan. Since strategy is focus, it leads to some difficult decisions as time goes on. New opportunities arise. Some new opportunities are great additions, offering healthy evolution and growth. Others are dangerous distractions that dilute the business, blur the focus, and bring the business down. The owner, owners, or core management team have to make these decisions, and they are hard. Normal entrepreneurs want to go into every new market to please everybody they can. So a good strategy summary helps to frame the new opportunities right.

There's no obvious formula for making these decisions. They don't teach it in business school. It's something business owners have to do for themselves. There is always risk and opportunity. So you refer to your strategy summary first, and then think about it.

This should come up in the monthly review sessions I recommend for every lean business planning process for every business.

And let's be clear about this: Methods don't matter. Use mine, or stories, or some other method. What matters is focus, what you don't do, and whether it works.

Second: Tactics

Strategy needs tactics for execution. In practical terms, this is your marketing plan, your product or service plan, and other tactical plans.

These tactical plans in your lean plan are as simple as possible, ideally just bullet point references. Don't worry about writing descriptions and explanations, or compiling background information, until you have a real business need to explain them to outsiders. Do worry about thinking all of your marketing and product plans through and planning them well. Even without the big text, you do want to plan and manage your important tactics.

If you're not absolutely sure about your tactics, do your best and remember you're going to review and revise every month from now on.

Marketing Tactics

Marketing, in its essence, is getting your customers to know, like, and trust you. To do that, you must understand your customers: know how and where to find them, how to help them find you, and how to present your business to best match your strategy and business offering. You have to make choices for pricing, messaging, distribution channels, social media, sales activities, and so forth. For your lean plan, these are mainly bullet points. They are defining the tactical decisions that you make. In the lean plan they are for internal use only.

I do recommend, however, that every business leader take a fresh look at the market at least once a year. Markets change, new markets develop, and you don't want to get lost thinking that what was true in the past is still true and will be true in the future. You can use LivePlan's market assessment tool to help.

Product Tactics (or service, or both)

These are about the business offering. Product or service tactics are the decisions you make about pricing, packaging, service specifications, new products or services, product launches, sourcing, manufacturing, software development, technology procurement, trade secrets, bundling, and so forth. Your lean plan contains the decisions you make on these items as bullet points. You know your tactics by heart, so you just list them, briefly, in your lean business plan.

Not sure? Do your best. Only you can decide whether you need to do more testing, research, or prototyping, or launch and develop improvements as you go. That's up to every business owner. There is no certainty ever, so do your best. And remember, you’re going to track results, review your metrics, and revise every month. Nothing is written in stone.

Other Tactics

Tactics often include financial tactics, or team building, hiring, recruitment tactics, or logistic tactics related to, say, taking on new office or manufacturing space. I group these in the third part of the pyramid shown in Illustration 5-1.

Overall Strategic Alignment

Strategic alignment is like silk. It’s hard to describe in the abstract, but you know it when you see it. And you know the lack of it when you see that, too.

For example: a local computer systems retailer whose strategy is providing a high level of service to local businesses, offering peace of mind in exchange for prices higher than the box stores, generates strategic alignment by beefing up its service capability with training and additional staff, buying some white vans with messaging about installation and delivery, and dedicating space in the store for a long service counter staffed by technicians in white coats. That same business is out of strategic alignment if it does nothing to improve service, doesn’t deliver or install, and hounds customers who are leaving bills unpaid because their equipment wasn’t installed correctly and isn’t working.

And another example: a restaurant whose strategy is great healthy gourmet meals for special occasions is in alignment when the food, the locale, and the service are excellent; the food sourcing is organic, the cooking is new cuisine, naturally light; and the meals are expensive. A restaurant with that strategy is out of alignment if the food is mediocre, or too heavy on sauces and butter; or the service is poor, or annoying; or it offers drive-through value meals; or it caters to kids under 10.

This lean plan is clearly not the “elaborate business plan” that lean startup experts reject. Unlike the elaborate plan, the lean plan doesn’t include carefully worded summaries or detailed business information for outsiders. It is not even a document. It’s a collection of lists, tables, and bullet points.

Third: Concrete Specifics:

Review Schedule

The most important single component of a real business plan is a review schedule. This sets the plan into the context of management. It makes it clear to everybody involved (even if that's just you) that the plan is going to be reviewed and revised regularly. All the people charged with executing a business plan have to know when the plan will be reviewed, and by whom. This helps to make it clear that the plan will be a live management tool, not something to be put away on a shelf and forgotten.

For example, in Palo Alto Software, from the early days on, we established the third Thursday of every month as the "plan review meeting" day. We brought in lunch and took over the conference room. It was never a big deal. We were almost always done in 90 minutes. But we scheduled all the meetings as part of the next year's plan, and key team members knew they should attend, and wanted to be there. Absences happened, but only when they were unavoidable.

If your planning process includes a good plan — with specific responsibilities assigned, managers committed, budgets, dates, and measurability — then the review meetings become easier to manage and attend. The agenda of each meeting should be predetermined by the milestones coming due soon, and milestones recently due. Managers review and discuss plan vs. actual results, explaining and analyzing the differences.

Even if it's just you in your business, you should still do a monthly review. We all benefit from the discipline of a scheduled time to take a step back from the day-to-day, review progress, analyze results, and make changes. That's called management.

Identify and List Assumptions

Identifying assumptions is extremely important for getting real business benefits from your business planning. Planning is about managing change, and in today's world, change happens very fast. Assumptions solve the dilemma about managing consistency over time, without banging your head against a brick wall.

Assumptions might be different for each company. There is no set list. What's best is to think about those assumptions as you build your twin action plans.

If you can, highlight product-related and marketing-related assumptions. Keep them in separate groups or separate lists.

The key here is to be able to identify and distinguish, later (during your regular reviews and revisions), between changed assumptions and the difference between planned and actual performance. You don't truly build accountability into a planning process until you have a good list of assumptions that might change.

Some of these assumptions go into a table, with numbers, if you want. For example, you might have a table with interest rates if you're paying off debt, or tax rates, and so on.

Many assumptions deserve special attention. Maybe in bullet points. Maybe in slides. Maybe just a simple list. Keep them on top of your mind, where they'll come up quickly at review meetings.

Maybe you're assuming starting dates of one project or another, and these affect other projects. Contingencies pile up. Maybe you're assuming product release, or seeking a liquor license, or finding a location, or winning the dealership, or choosing a partner, or finding the missing link on the team.

Maybe you're assuming some technology coming on line at a certain time. You're probably assuming some factors in your sales forecast, or your expense budget; if they change, note it, and deal with them as changed assumptions. You may be assuming something about competition. How long do you have before the competition does something unexpected? Do you have that on your assumptions list?

Milestones

There's no real plan without milestones. Milestones are what you use to manage responsibilities, track results, and review and revise. And without tracking and review, there is no management, and no accountability.

You can use the scheduling feature in LivePlan to develop your milestones and manage them with tracking and email reminders. In Illustration 6-1 we saw how the bicycle store lean plan review schedule also contained milestones including a top 10 customer list, Spring promotion, and social media setup. LivePlan mixes the review schedule and milestones together.

Just as you need tactics to execute strategy, so too you need milestones to execute tactics. Normally you'll look for a close match between tactics and milestones.

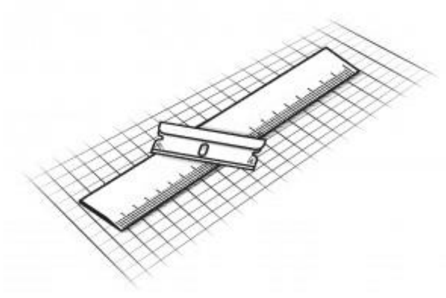
And you might also have budgets, start dates, and additional information for main milestones. Then make sure all your people know that you will be following the plan, tracking the milestones, and analyzing the plan-vs.-actual results. If you don't follow up, your plan will not be implemented.

Your milestones list and categorize what's supposed to happen for ongoing tactics related to products, services, marketing, and sales. They include launch dates, review dates, prototype availabilities, advertising, social media, website development, programs to generate leads and traffic. The milestones set the plan tactics into practical, concrete terms, with real budgets, deadlines, and management responsibilities. They are the building blocks of strategy and tactics. And they are essential to your ongoing plan-vs.-actual management and analysis, which is what turns your planning into management.

And you develop your milestones by thinking through strategy, tactics and actions for business offering and marketing. So you can naturally divide them into the same categories as your tactics: marketing and sales, product, and other (where "other" might be, as with tactics, financing activities like raising investment or contracting commercial credit). Or the milestones might be related to legal issues, or managing a team, or logistics like moving or opening a new location.

Metrics

Developing performance metrics is a critical part of developing accountability as one of the principles of lean planning:



“Metrics" is my favorite word for performance measurements that you track as part of your regular planning process. They are numbers people can see and compare. Make them explicit as part of your lean plan. Show them to the management team as part of the planning and then show the results again and again during your monthly review meeting. Management often boils down to setting clear expectations and then following up on results. Those expectations are the metrics.

The most obvious metrics are in the financial reports: sales, cost of sales, expenses, and so on. Most people in business understand how assigning specific responsibility for those financial numbers, and managing those numbers closely, builds accountability in a business. Those are classic performance metrics.

However, with good lean planning, you can look for metrics throughout the business, aside from what shows up in the financial reports. For example, marketing is traditionally accountable for levels of expenses in the financials, but also generates metrics on websites, social media, emails, conversions, visits, leads, seminars, advertisements, media placements, and so on. Sales is traditionally responsible for the sales reports in the financials, but there are also calls, visits, presentations, proposals, store traffic, price promotions, and so on. Customer service has calls, problems resolved, and other measures. Finance and accounting have metrics including collection days, payment days, and inventory turnover. Business is full of numbers to manage and track performance. When metrics are built into a plan, and shared with the management team, they generate more accountability and more management.

Developing the metrics required to bring your people into the planning process is very important. Involve the team in deciding what metrics to use. The people in charge often fail to realize how well the players on the team know their specific functions, and how they should be measured.

Of course the starting expectation numbers alone aren't enough. For real accountability, management revisits those numbers regularly, to track progress and make people accountable for results. This is a critical part of planning as steering the business and planning as management.

Fourth: Essential Business Numbers

True cash-only businesses are extremely rare. Such a business would have to sell entirely in cash, check, or credit card; not ever have to buy inventory or anything else before it makes a sale, and would immediately pay for everything it buys. Maybe that's a crafts-market artisan? A writer? I'm not sure. When in doubt, plan for the worst. I am sure that most of us, as business owners, have to deal with the more common problems of cash flow.

Beware of Cash Traps

Profits aren't cash.

Profits aren't cash; they're accounting. And accounting is a lot more creative than you think. You can't pay bills with profits. Actually, profits can lull you to sleep. If you pay your bills and your customers don't, it's suddenly business hell. You can make profits without making any money. Profits are an accounting concept; cash is what we spend. We pay the bills and payroll with cash. While a lean business plan doesn't necessarily include a full-blown financial forecast (at least not until the business plan event, when it will be needed), of course it should include planning for cash.

This should be a pretty simple concept, but it becomes difficult because we're trained to think about profits more than cash. It's the general way of the world. When people do the mythical business plan on a napkin, they think about what it costs to build something, and how much more they can sell it for, which means profits.

Cash means liquidity, like checking balance; not coins and bills

However, you can be profitable without having any money in the bank. And what's worse is that it tends to happen a lot when you're growing, which turns good news into bad news and catches people unprepared.

Cash Flow Isn't Intuitive.

Don't try to do it in your head unless you have that extremely simple business. Making the sale doesn't necessarily mean you have the money for it. Incurring the expense doesn't necessarily mean you paid for it already. Inventory is usually bought and paid for and then stored until it becomes cost of sales. Being profitable doesn't guarantee you have money in the bank. Most of us have to take the extra step to plan cash, not just profits.

Growth Sucks Up Cash.

It's paradoxical. The best of times can be hiding the worst of times. One of the toughest years my company had was when we doubled sales and almost went broke. We were building things two months in advance and getting the money from sales six months later. Add growth to that and it can be like a Trojan horse, hiding a problem inside a solution. Yes, of course you want to grow, but be careful because growth costs cash. It's a matter of working capital. The faster you grow, the more cash you need.

Every Dollar of Receivables is A Dollar Less Cash.

Although it's not intuitive, it's true that more receivables mean less cash. You can do the analysis pretty quickly. Assets have to equal capital minus liabilities, so if you have a dollar of receivables as an asset, that pretty much means you have one dollar less in cash. If your customers had paid you, it would be money, not accounts receivable.

This comes up all the time in business-to-business sales. In most of the world, when a business delivers goods or services to another business, instead of getting the money for the sale right away, there is an invoice and the business customer pays later. That's not always true, but it is the rule, not the exception. We call that "sales on credit," by the way, and it has nothing to do with sales paid for by credit card (which, ironically, is usually the same as cash less a couple of days and a couple of percentage points as fees). Some people call it "sales on account."

Receivables? When you make a sale, but the client or the customer didn't pay you immediately, you record the amount they owe you as Accounts

We can use this in making financial projections: the more assets you have in receivables, the less in cash.

Example: A company running smoothly with an average of a 45-day wait for its receivables has a steady cash flow with a minimum balance of just a little less than $500,000. The same company is more than half a million dollars in deficit when the number of its average collection days goes to 90 instead of 45. That's a swing of more than a million dollars between the two assumptions. And that's in a company with less than $10 million annual sales, and fewer than 50 employees. And the company in the sample case that follows this section, with sales of about $30,000 a month, has a gap between operating profits and cash flow of more than $90,000.

And the trick is that profit and loss doesn't care about receivables. You have as much profit when you sell $1,000 that your customers haven't paid yet as when you sell $1,000 that your customers paid instantly in cash. Obviously, the cash flow implications are different in either case.

Every Dollar Spent on Inventory is a Dollar Less Cash.

When your business has to buy stuff before it can sell it, that's called inventory. It's one of your assets. And keeping a lot of inventory can do bad things to your cash flow, unless you don't pay for it.

This can be pretty simple math. If having nothing in inventory leaves you with $20,000 in cash, then having $19,000 in inventory leaves you with only $1,000 in cash. That is, if you've paid for the inventory. That's because your other assets, your liabilities, and your capital are all the same.

Sometimes, of course, you cannot pay for that inventory, which means you have more payables, and your cash balance is supported by those payables. That's my next point…

Every Dollar of Payables is a Dollar More of Cash.

While receivables and inventory suck up money by dedicating assets to things that might have been cash but aren't, not paying your own bills until they are due, and even paying them slightly late, is a standard way to protect your cash flow. The same basic math applies, so if you leave your money in cash instead of using it to pay your bills, you have more cash.

It's called "accounts payable," meaning money that you owe. Every dollar in accounts payable is a dollar you have in cash that won't be there if you pay that bill. The same problem you have when you sell to businesses is an advantage you have when you are a business. The seller's accounts receivable is the buyer's accounts payable.

Now I don't want to imply that you don't pay your bills, or that it doesn't matter. Your business will have credit problems and a bad reputation if it doesn't pay bills on time, or if it is chronically late with payments. Still, a lot of businesses use accounts payable to help finance themselves.

Working Capital is a Survival Skill.

Technically, *working capital* is an accounting term for what's left over when you subtract current liabilities from current assets. Practically, it's money in the bank that you use to pay your running costs and expenses and buy inventory while waiting to get paid by your business customers.

Bankers Hate Surprises.

Plan ahead. You get no extra points for spontaneity when dealing with banks. If you see a growth spurt coming, a new product opportunity or a problem with customers paying, the sooner you get to the bank armed with charts and a realistic plan, the better off you'll be.

Essential Projections

What does it take to project cash flow?

- You need to forecast revenue, as in sales. Revenue also includes loans you take in, and investments received.
- And spending, which includes cost of sales and most operating expenses (the notable exception is depreciation, which doesn't actually cost money). Spending also includes repayment of debts, purchasing assets, and dividends.

Forever: Keep it Live. Use it Well.

Just like lean manufacturing and lean startups, lean business planning is a process of continuous improvement. It takes small steps, analyzes results, and makes corrections. I've revised the classic PCDA cycle to make a lean planning version that I now call PRRR, for plan-run-review-revise.

So lean business planning is more than just the lean plan itself. It's the plan plus regular review and revisions. You don't ever finish it because if your plan is done, so is your business. Your live lean plan is easy to revise, and you revise it as often as you want to.

Scheduling the monthly review was the first of the concrete specifics of your plan. I suggested a set schedule such as the third Thursday of every month, so you can set the meeting into your calendar ahead of time. Make sure you get that meeting onto the schedules of every person on the team who should attend. Make sure it's a relatively short but also extremely useful meeting.

Review and Revise

What's important is not the accounting, the calculations, but rather the management that results. Lean business planning is about the management, not the hard numbers. What should be done, given the variance, to make the company better?

Add More Only as Needed

Much as the lean startup experts complain about what they call the elaborate business plan, real businesses, in the real world, do occasionally need to present a business plan to outsiders. They have what I call business plan events, when a business plan is required.

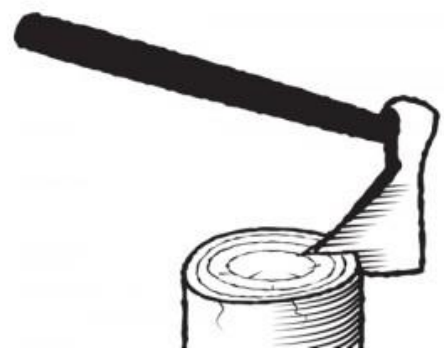
But times have changed. You still don't need the big plan. Do your lean plan and keep it up to date with regular review and revisions. And when somebody asks for a traditional business plan (if they do), then add the extra ingredients you need. That might be a market analysis, maybe an exit strategy, maybe a detailed description of product or marketing plan. Do them as summaries, presentations, or appendices.

A Good Business Plan is Never Done

This is true for all business planning, not just lean business planning:

> *A good business plan is never done. If your business plan is finished, then your company is also finished.*

It's a lot like the legendary farmer's axe, that has had its handle changed four times and its blade changed three times, but it's still the same axe.



As your company gets used to the planning process, the business plan is always a work in progress. It gets a big refreshment every year, and a review and course correction every month.

While this is true for all business planning, the lean plan is especially good for dealing with this essential reality, because the lean plan is faster and easier to do and therefore easier to review and revise. It's streamlined, just big enough to run the business.

The idea is that you always have your lean plan up to date. You meet every month to review it. Every so often, as business plan events come up, you spin out of your business plan a formal output piece, whether it's a pitch presentation, an elevator speech, or a full-fledged formal business plan document.

Do understand, always, that the document, summary, or pitch is not the plan; that's just output from the plan. It's the latest version. But the lean business plan goes on, like steering, walking, dribbling, and navigation.

Don't ever wait for a plan to be done. Get going.

Business Plans are Always Wrong, But Vital

It is a simple statement: all business plans are wrong, but nonetheless vital.

It is paradoxical, perhaps, but still very true.

All business plans are wrong because we're human, we can't help it, we're predicting the future, and we're going to guess wrong.

But they are also vital to running a business because they help us track changes in assumptions and unexpected results in the context of the long-term goals of the company, long-term strategy, accountability, and everything lean planning represents.

About the Author

Do a Google search for “business plan expert” and you’ll find Tim Berry listed first in the organic, unpaid results. Business writers have called him “the business plan guru” and “the Obi-wan Kenobi of business planning,” in print, in major media.

Berry founded Palo Alto Software and built it on his own, without outside investment, to multi-million-dollar sales, profits, and cash flow independence. He’s a leader in a local group of angel investors. He did business planning for Borland International, a software company that went public in less than four years; for various divisions of Apple Computer for 12 years; and for a collection of clients, large and small for decades. He’s the author of *The Plan as You Go Business Plan*, published by Entrepreneur Press, and half a dozen other books published by Entrepreneur, McGraw-Hill, Dow Jones-Irwin, and others. Entrepreneur-celebrity Guy Kawasaki chose to interview Berry as his expert on business planning, and he’s been writing on that topic for more than a decade at Entrepreneur, SBA.gov, and other major media.

He has a Stanford MBA degree, an MA in Journalism with honors from the University of Oregon, and a BA *magna cum laude* from the University of Notre Dame.

There’s more information about him at timberry.com.