STRATEGIC PLANNING FOR EMERGING GROWTH COMPANIES

A Guide for Management

Kenneth H. Marks

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for
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Introduction

This document is a compilation of empirical data and academic studies relating to the business planning process for emerging growth companies. This paper is intended to be a short-form guide for management as they contemplate the future of their emerging growth company. Ideally, this would be read by the CEO and his team, as they prepare to embark on the planning process, to provide a broad overview of what strategic planning is, why do it, and what to expect.

Many say that strategic planning is passé. I agree that a multi-year static plan is of little use in today's changing environment, however, what I'm promoting is the dynamic use of a set of value-adding tools to constantly monitor and reassess your company's compass. The concept is about developing a systematic mental process in which to calibrate today's decisions with the inherent values and objectives of the firm.

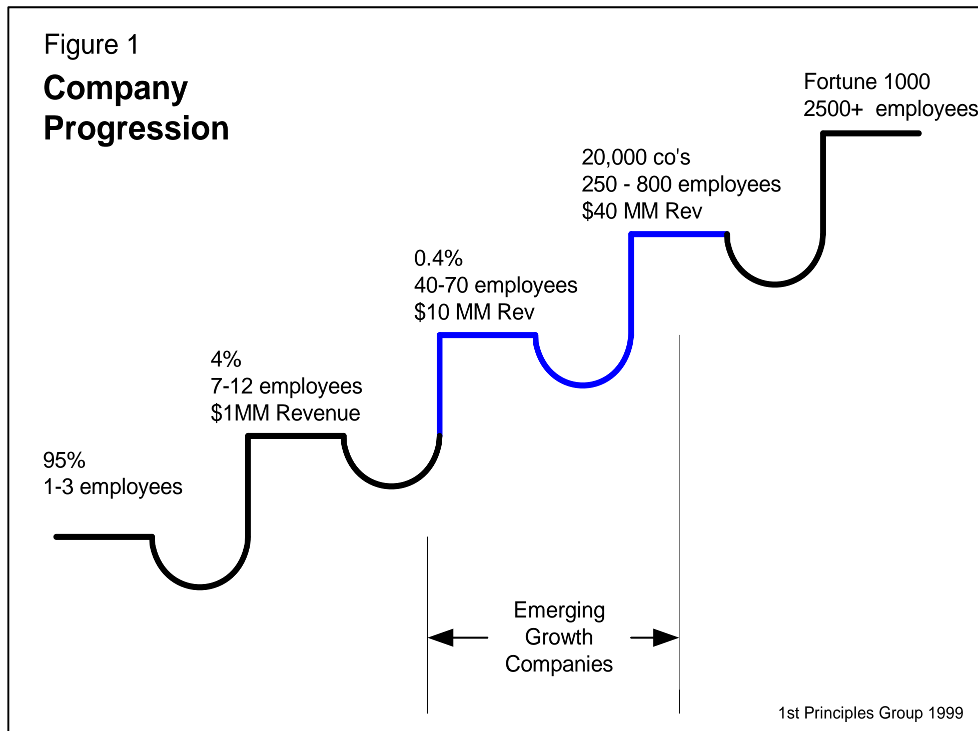
As a little background on myself: I provided strategic and financial advisory services for emerging growth companies as an investment banker. I participated in growing four characteristic companies and experienced the transformation from quasi start-up to a professionally managed corporation. In one company, I was the founder and CEO from start-up through about $23 million in revenue, in two companies I was a consultant leading the strategic planning process, and in the fourth I was the Chief Financial Officer. Today, I am the principal in an professional services firm focused on working with growth companies. I'm currently working with five companies in various stages of growth in one of the roles of: Chief Financial Officer, member of a Board of Advisors, and investment banker. In each case, though dissimilar in industry and culture, the companies that I have worked with confronted similar hurdles as they

transitioned from an owner-centric organization to a perpetually run shareholder-centric business. Key to this transformation was the development and implementation of a clearly articulated business strategy and plan. Though there are numerous books and techniques written about strategic planning, the tools I am presenting have proven to provide real value in practice for me and my peers.

Herein, I'll discuss the attributes of the target companies, review strategic management, define a planning process, present tools and analysis techniques to be used, present some issues to avoid and conclude with some suggested follow-on activities.

Emerging Growth Companies

For the purposes of this document, emerging growth companies are those that have reached revenue in the $6-10 million range with 40 to 70 employees and have historically grown at a rate of at least 15% a year. In many instances, the growth rate is



significantly greater. Typical companies in this group are INC. 500, emerging INC. 500, or FAST 50 participants. The founder/owner/CEO is many times a member of YEO (the Young Entrepreneur's Organization), YPO (Young President's Organization) or TEC (The Executive Committee); and is an entrepreneur.

Figure 1 above provides a rough segmentation and some statistics about the stages of progression of companies. As indicated, less than 1% of all businesses in the U.S.

Figure 2
Management Factors & the Stages of Growth

Stage I Existence
Stage II Survival
Stage III-D Success
Stage III-G Success
Stage IV Take-off
Stage V Resource Maturity

Critical to the Company
Important but managed
Modestly irrelevant or a natural by-product

Owners Ability to do
Cash
Matching of business & personal goals
People - quality & diversity
Strategic Planning
Systems & Controls
Owners ability to delegate

Success D = Disengagement
Success G = Growth

Neil C. Churchill & Virginia L. Lewis 1983

make it to the stage we're discussing (as shown in blue above).

A glance at Figure 2 highlights the issues confronting an emerging growth company. In this chart you should focus on the transition from survival (stage II) to take-off (stage IV). Some characteristics of these companies from start-up through survival are: owner-centric, operationally focused, cash is hand-to-mouth, reactive in nature, few systems and little planning. However, to successfully make the transition through success and take-off, a company must: be stakeholder-centric, be strategically focused, have reasonably strong management, have manageable cash-flow, be proactive, have institutionalized systems and processes and have adequate planning. These elements are totally different from the environment that got you through the survival stage. This transition can be characterized by the cliche's: "getting past the $10MM hurdle", "going from a one-man-show to an ongoing enterprise", or "making the leap from a lifestyle business to a perpetual corporation".

Starting with the planning process lays the ground-work for solving all of the other key issues by providing a clear understanding of the needs and relative priorities. The plan becomes the basis in which decisions are compared. Having a set of benchmarks is especially critical in today's fast paced changing business environment where decisions have to be made on the fly. The strategic plan with a clearly aligned set of resources allows for greater precision in making business decisions and more confident action in their implementation.

My desire to write this paper is to help you avoid the perils and successfully transition from stage II to stage IV. What worked for you in the past and got you to where you are today, most likely will not work to get you from stage II to stage IV. It's

especially hard for the entrepreneur to make a change in mind-set given past successes. Though not apparent, a unique phenomenon takes place between stages II and III-D. The owner/CEO of the business awakens one day with a sense of relief; all of the sudden cash is not so tight, the company is profitable, customers appear to be happy; he is on top of the world. Then the superman syndrome kicks-in; he thinks to himself, "I was able to weather the storms to $6-10MM in sales, I can do anything!". He begins to develop a grand-plan to overtake the market and reach $100MM+. This is the point in which many growth businesses begin to lose focus; eventually their growth stalls and they begin to fall apart. Key to making it across the chasm, and staying there, is addressing the fundamental issues of management skills and strength (without the founder), dependence on the owner/operator/founder, infrastructure, capital formation and clarity of vision and strategy. My focus in this document is on the process of developing a clear vision and strategy from which the questions about the other key attributes can be addressed. In my experience, you must put first things first. Dealing with the five issues above and having an objective understanding of the market you serve, is the foundation of the strategic plan to cross the chasm.

If you don't think this discussion applies to you, assess your organization as it applies to the following symptoms: inconsistent product or service quality, high employee turnover, employee burnout, declining gross margins, reduced overall profitability, increased number of customer complaints, and/or poor customer retention. Combined, these usually result in stalled revenue growth and retrenching by the company if not aggressively pursued and corrective actions taken. The five fundamentals are usually at the root of these issues.

The benefits of following this strategic planning process are numerous. It's important to integrate the professionals hired and extract the value from the investment in the management team you've made or are going to make. Many CEO's hire professional management, but fail to listen and learn from their experiences. The strategic planning process provides a disciplined and objective way to solicit input from your management team, advisors and key associates; and obtain buy-in for the eventual plan. The number one benefit is the positive effect of getting your team together, off-site, to think about the business and its future; it is powerful to get your management team aligned and focused! The result of team alignment and focus based on a clear plan is usually improve profitability and quicker obtainment of your overall objectives. Another key benefit from this process can be realized when seeking outside financing. Whether, negotiating with a private equity fund or your local bank, your credibility and believability directly influence the terms and conditions in which someone will invest or lend money to your company. Having a well thought out, defensible plan will increase your chances of successful funding and allow you to minimize your cost of capital; this includes minimizing any dilution you may experience from issuing new stock or warrants. In a way, you can think of this planning process as 'Success Insurance'.

Strategy

Before we go on, I want to define and explain strategy. To me, strategy is about the forest and the trees. It's taking a long-term view of what you are trying to accomplish, integrating the dynamics specific to a particular company and to its industry, developing a set of initiatives to achieve a particular future position, and then distilling it

down into bite-size activities and actions, that in an appropriate sequence, allow you to meet your objectives. Strategy is the set of decisions defining the activities that positions your company advantageously relative to your rivals. Porter[3] defines strategy and his perspective below:

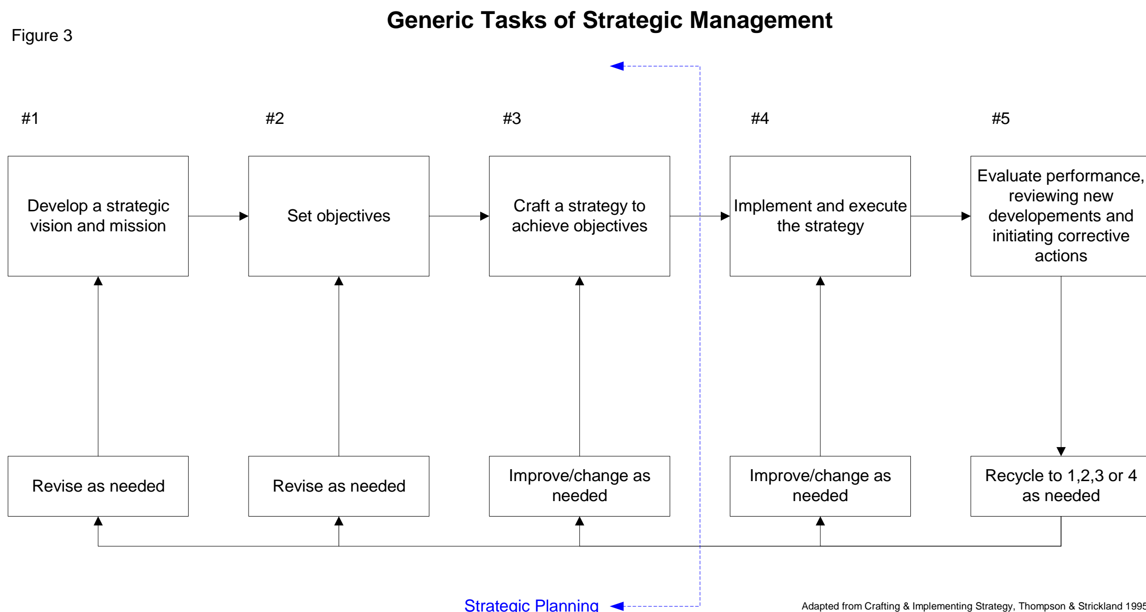
> "Competitive strategy is about being different. It means deliberately choosing a different set of activities to deliver a unique mix of value. Operational effectiveness is not strategy. Ultimately, all differences between companies in cost or price derive from the hundreds of activities required to create, produce, sell, and deliver their products or services, such as calling on customers, assembling final products, and training employees. Cost is generated by performing activities, and cost advantage arises from performing particular activities more efficiently than competitors. Similarly, differentiation arises from both the choice of activities and how they are performed. Activities, then, are the basic units of competitive advantage. Overall, advantage or disadvantage results from all a company's activities, not only a few.
>
> Operational effectiveness (OE) means performing similar activities better than rivals perform them. Operational effectiveness includes but is not limited to efficiency. It refers to any number of practices that allow a company to better utilize its inputs by, for example, reducing defects in products or developing better products faster. In contrast, strategic positioning means performing different activities from rivals' or performing similar activities in different ways. Strategy is about combining activities."

Given Porter's comments and my experiences, I would suggest that strategy for an emerging growth company is generically two pronged: (1) having a defined plan to address the fundamental issues discussed in the previous section concerning crossing the

chasm, and (2) having a understanding of your market, its needs, and your defined position and activities to perform as good if not better than your competitors.

Strategic Management

Before I dive into the planning process, it makes sense to review, in broad terms, strategic management and how this relates to strategic planning and strategy.



Strategic management is a continual process of making and implementing a particular strategy, and then evaluating performance. It is the mechanism for establishing a learning organization that is proactive. Figure 3 shows a graphical representation of the generic tasks of strategic management. Strategic planning is a subset of strategic management, encompassing steps #1 through #3 in figure 3.

The process of strategic planning involves establishing the vision and mission of the company, setting the objectives, developing a strategy and then a detailed set of

action steps to implement the ideas. We will take the generic framework above and develop the tools to assist in assessing the company, the issues and establishing a plan.

The place where many academic studies fail and many hands-on simplified workbooks fall short is bridging the gap between theory and reality. We must take the idealistic flowchart in figure 3, utilize some real world tools and techniques for analysis, and finish with some simplified ideas, goals and activities from which to act.

The Strategic Planning Process

Overview

In figure 4, I have presented a simplified framework for the strategic planning process and listed the tools to be discussed and used for each step. I have taken the generic steps discussed in figure 3 (#1 through #3), and redefined them in laymen's terms as the basis from which to work.

A typical timeline has been shown below in figure 5. The overall process will take about 120 days for a company new to this process. Preparation for the planning process includes customizing the questionnaire in Exhibit A; establishing key completion dates and confirming them with the participants; arranging for an off-site meeting place; and obtaining copies of the latest business plan and supporting schedules. We will describe in more detail the activities for the balance of the planning steps as we continue through this paper.

Figure 4

Simplified Conceptual Framework for the Strategic Planning Process

Tools

1\.

* Latest business plan.
* Questionnaire.
* Definitions.

2\.

* SWOT assessment.
* Five forces model.
* Value chain analysis.
* List of industry drivers.
* Market overview.
* Value-net model.
* Strategic group map.
* Industry reports.
* Competitor information.
* Economic information.

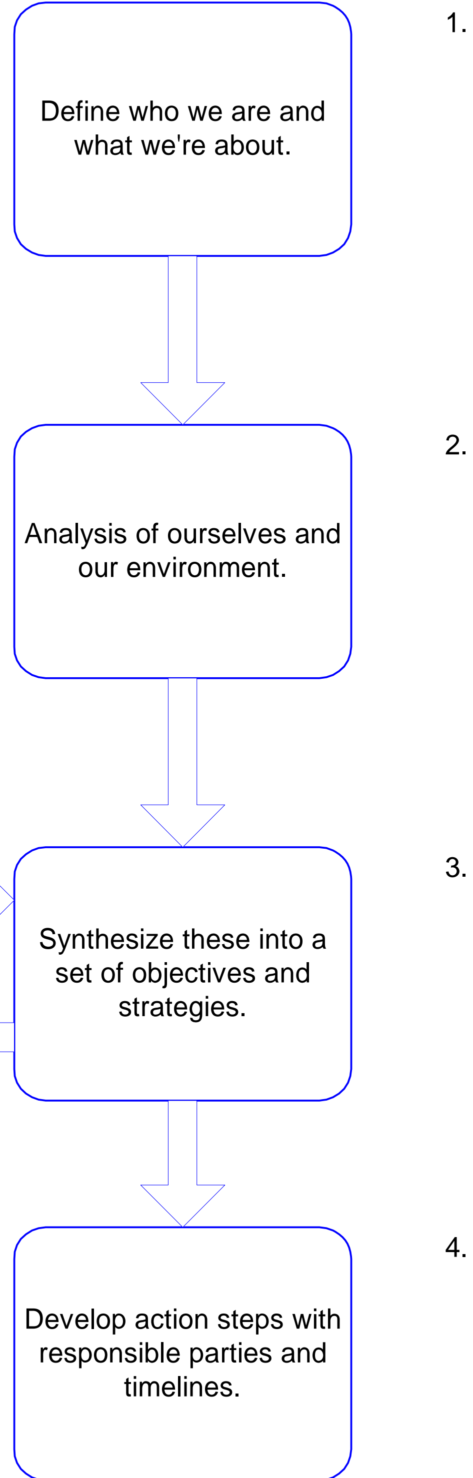
Fundamentals Survey to include assessment of:
* management's skills and strength (without the owner /founder),
* dependence on the owner/ founder,
* infrastructure (systems, IT, operating procedures), &
* financial & capitalization plan.

3\.

* SPACE analysis.
* Strategy matching suggestions.
* Strategic initiatives worksheet.
* Financial model.

4\.

* Timelines.
* Actions plans.
* Business process flowcharts.
* Organizational charts.
* Financial plan.



I suggest that the company seek the services of an outside facilitator with related planning experience to lead the strategic planning process. This allows everyone in the management team to focus on the substance of the discussions, not the process itself. A planning workbook should be made for each participant containing the key documents. A kickoff meeting should be held to review the process and concepts, and to distribute the workbooks. Group ground rules should be established to set the stage for open discussions. To obtain candid feedback, there must be a vow of confidentiality from the process leader.

Figure 5

Strategic Planning Timeline
Emerging Growth Corporation

ID	*Task Name*	*Start Date*	*End Date*	*Duration*	*1999*				*2000*		
					Sep	*Oct*	*Nov*	*Dec*	*Jan*	*Feb*	*Mar*
1	Preparation for the planning process	9/1/99	10/1/99	23d							
2	Define Who We Are & What We're About	10/2/99	10/21/99	14d							
3	Analysis of Ourselves & Our Environment	9/15/99	11/9/99	40d							
4	Synthesize the Information into a Strategy & Goals	11/1/99	11/18/99	14d							
5	Develop Action Plans	11/19/99	12/8/99	14d							
6	Define Follow-on Activities	12/9/99	12/22/99	10d							
7	First Quarterly Performance Review	3/15/00	3/15/00	1d							

In many instances, there is not enough technical, financial or marketing experience present in existing management to provide comprehensive and objective input into the process. If this is the case, the company should seek outside counsel on these issues and potentially have these individuals participate in the planning process and discussions. No matter how experienced or technically astute, an outsider can't make effective contributions without immersing himself in the actual business under study.

A team of three to six individuals should participate in the planning process. Ideal participants are the founder/owner/CEO plus the key individual in sales, operations, finance, information technology, and product or service development. If there is an outside board of directors, someone from that group should also participate. It's important to have a group that has diverse backgrounds, responsibilities, and perspectives about the business and its future. Each should have some vested interest in terms of the eventual outcome of the business to assure sincere contribution.

Step #1 - Define Who We Are and What We're About

We begin the planning process by capturing data from the participants using the sample questionnaire provided in Exhibit A. The questionnaire is usually tailored to the specific situation and position of the company, though many of the questions are generic.

The facilitator should have the responses of the questionnaire returned to him directly. In addition, one-on-one face-to-face interviews with each participant should be held to fully understand their individual responses; then the questionnaires should be summarized for distribution. The facilitator should complete a questionnaire based on his perspective of the company and the situation; and if necessary, he should spend time with the company and research the issues in adequate depth to provide relevant contribution.

It's important that someone takes the role as devil's advocate and break any groupthink that may surface; this is usually the facilitator.

A one-day off-site meeting should be held to begin the planning process. This time will be spent discussing the responses from the questionnaire, reviewing the state of

the business, clarifying the process and making assignments for further research. It is important at this meeting that the founder/CEO present his philosophy and direction for the business; whereas this is the basis for many of the guiding decisions to be made hereafter; particularly the purpose of the company.

In reviewing the questionnaire in Exhibit A, you find inquiries about the mission or vision of a company. It's sometimes helpful to discuss the vision of the company vs. the mission. In the process being described herein, I'll disaggregate the vision into two parts: (1) the core ideology and (2) the envisioned future.

The core ideology describes what you stand for; and is meant to guide and inspire. It is comprised of two concepts: (a) the core values (guiding principles) and (b) the core purpose (reason for existence).

The core values are:

> "the organization's essential and enduring tenets – a small set of general guiding principles; not to be confused with specific cultural or operating practices; not to be compromised for financial gain or short-term expediency. The core values need no rational or external justification. Nor do they sway with the trends and fads of the day. Nor even do they shift in response to changing market conditions.
>
> Purpose is the set of fundamental reasons for a company's existence beyond just making money. Purpose need not be wholly unique. The primary role of purpose is to guide and inspire, not necessarily to differentiate." [(6)]

The core values are generally a set of no more than six guiding ideas. Walmart's number one core value is "we put the customer ahead of everything else….If you're not serving the customer, or supporting the folks who do, then we don't need you." Purpose

is broad, fundamental and enduring. Disney's purpose is "to use our imagination to bring happiness to millions".

The envisioned future is also comprised of two parts: (a) a big hairy audacious goal (BHAG) which is a bold mission, and (b) a vivid description of what it will be like to achieve the BHAG. Essentially this is creating the future in the mind today. Focusing on the vision of the company in clearly articulated, meaningful terms, provides the foundation to begin aligning the focus of the management team.

An initial draft of the vision should be made prior to adjourning the first meeting. In addition, teams will need to be assigned to research and analyze specific issues relating to the business of the company. Much of this work will be about clarifying facts about the company, its competitors, the industry, products, technologies, etc... The outcome of the teams' work will be presented at the next full day off-site meeting.

A shift in the decision making process for many companies must take place; such that decisions are being made with information that is factual, not perceived. Many of the tools discussed in the next section can be used to clarify the company's position and shape/guide the decision-making process.

A summary of the day's discussions and assignments should be documented and routed to each participant for final input within 7-10 days of the initial meeting. A final draft should be circulated shortly thereafter.

Step #2 - Analysis of Ourselves and Our Environment

The next major step in the planning process is analysis relating to the company and its environment. This step can take between 30 and 90 days, ending in an all day

presentation by the participating management discussing their findings and observations. So that all participants can be prepared, it is usually recommended that a summary of the analysis is distributed a week or so in advance.

Below I have introduced a number of tools to assist in developing a better understanding of the company. Two key tools are the SWOT Analysis and the Five Forces Model.

SWOT Analysis – SWOT is an acronym for strengths, weaknesses, opportunities and threats. These refer to evaluating the internal strengths and weaknesses and the external opportunities and threats to a company. For each of the four areas, we need to evaluate all of the major factors affecting the business. A sample SWOT assessment is shown below in figure 6 for review.

A place to begin your assessment is by completing the Fundamentals Survey in Exhibit B. This survey was developed to assess the five key fundamental areas in which most emerging growth companies must address to cross the chasm from stage II to stage IV. Rate each line from 0 to 10, with 0 indicating "none or little" and 10 equating to "expert or significant".

Area 1 of the survey is seeking to rate the strength of existing management. A useful exercise is to complete a survey for each functional department head within the company: sales, operations, finance, quality, information technology, etc... This may further highlight areas to be addressed. The first step in building the foundation from which to springboard to the next level is establishing a competent, credible, capable, committed management team. A note to CEO's; Many times the individuals that brought the company to its current level of success are not the individuals that can take it

to the next level. It is important to be realistic about the capability and capacity of each management team member. I am not advocating abandoning the people that built the company, but rather, establishing realistic roles and expectations for the future. I believe that loyalty is important and that part of the responsibility of today's management is establishing personal development plans to grow our people. Sometimes this means hiring outside professional management from which the group can learn and develop.

Area 2 focuses on the company's dependence on the owner/founder/CEO, referred to as "O/F". In many instances, the O/F is the most knowledgeable of the team. This should be a red flag! Though dependence on the O/F may be flattering, it's usually not good for the company. Even if professional management has been recruited, sometimes the culture of the company doesn't change very quickly. Many times decisions continue to be pushed upwards to the O/F; once again this is problematic if a company expects to continue at a quick rate of growth. A few suggestions to begin to break the dependence from the O/F are as follows:

- Change the culture from ME to WE.
- Push decision making down once the right people and systems are in place.
- Establish client, employee and supplier relationships with others in the management team.
- Educate the O/F.
- The O/F should manage the business as if it were a division of a larger company; holding himself accountable.
- Establish a board of advisors (or directors) as a trusted sounding board.

Area 3 addresses the infrastructure of the company. There tends to be confusion among entrepreneurs thinking that if a business becomes disciplined in its operating processes that it will somehow lose its entrepreneurial magic. This is a myth! Key to

making the transition to stage IV is having defined operating processes that are understood by all and continuously monitored for progress; this is especially true for the core business processes. Included in the concept of infrastructure is defined roles and communication among employees; with compensation tied to performance. Increasingly, information technology is becoming a strategic issue as it relates to developing the infrastructure of companies. Systems and processes need to be developed with the concept of scalability in mind. This means having the ability to easily and readily expand and duplicate the processes as the business grows.

Capital formation, Area 4, addresses the underlying financial plan of the business and how resources will be made available as needed. An understanding of the O/F's exit plan is the beginning step in developing a corporate financial strategy. It is important to understand and have a realistic set of expectations as it relates to the valuation and financing alternatives for the business. Developing relationships with financing sources and understanding the limits of traditional banking are important in funding the continued expansion of an emerging growth company.

Area 5 addresses the essence of this document, the strategic plan. That is, to define a strategy and plan of action that takes into account the internal and external dynamics of the company and its environment coupled with the objectives of the O/F. A common disconnect exist between the vision of the O/F and the fire fighting in managing day-to-day operations. The process of developing a strategic plan couples and more clearly defines, aligns and synchronizes this vision with reality and today's actions.

Figure 6

SWOT Analysis
Emerging Growth Corporation

Strengths

1. Strong balance sheet.
2. Gross margins.
3. Telecom & datacom industry expertise.
4. Large sales force.
5. Available capacity.
6. Select vertical integration.
7. Purchasing strength relative to competition.

Weaknesses

1. Customer concentration.
2. Industry concentration.
3. Dependence on OEM's.
4. Production management.
5. Financial systems.

Opportunities

1. Continued participation in high growth telecom & datacom industry.
2. Growth through acquisitions due to industry consolidation.
3. On the front-end of technical curve; leverage for competitive advantage.

Threats

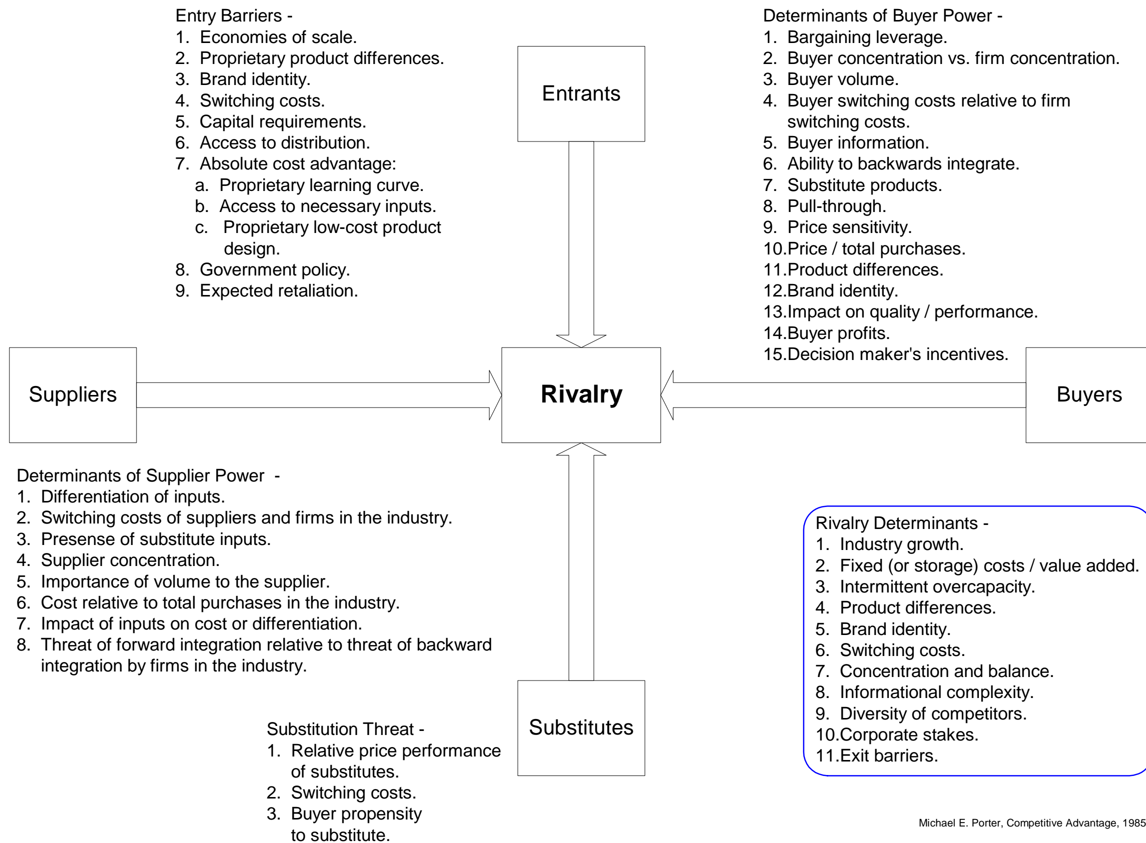
1. Integration issues with recent acquisition.
2. Startup issues with greenfield expansion.
3. Approaching revenue and operational hurdles of the next growth stage.

Review the group feedback from the questionnaire and begin a chart similar to the one in figure 6. Take an inventory of the skills and quality of management as it relates to the needs of the business. In what areas of the organization is the company strongest? What financial resources are available to the company? Assess each functional department of the company. Begin the process of evaluating the industry and your competitors. What opportunities exist for your company that aren't being taken advantage of? Review the responses from the questionnaire referenced above for more thought provokers and insights.

Five Forces Model – Porter developed the five forces model to provide a framework from which to evaluate the rivalry in an industry. Figure 7 below shows a graphic representation of his model.

Figure 7

Five Forces Model
Industry Analysis



Porter has demonstrated that "the state of competition in an industry is a composite of five competitive forces:" (2)

- The rivalry among competing sellers in an industry.
- The market attempts of companies in other industries to win customers over to their own substitute products.
- The potential entry of new competitors.
- The bargaining power and leverage exercisable by suppliers of inputs.
- The bargaining power and leverage exercisable by buyers of the product.

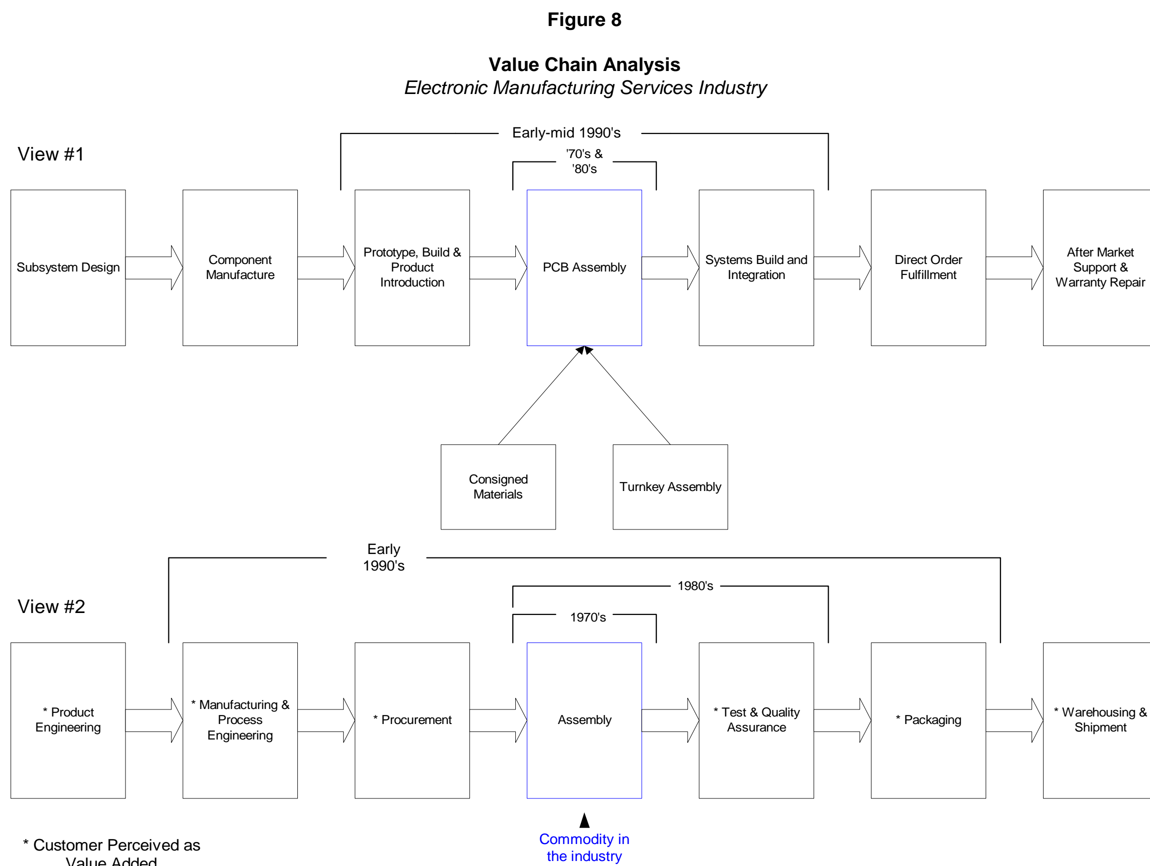
This is a relatively simple, but powerful tool that can provide excellent insight into the dynamics of an industry and the influences created by jockeying for better market

position and competitive advantage. It is important that the management of a company understand the dynamics taking place in the industry that it operates and the stage in which the industry is with respect to its lifecycle. The perspective obtained by objectively viewing the environment that the company operates in can significantly impact the strategy undertaken to grow and expand the business.

Value Chain Analysis – The value chain analysis shows a linked set of activities

Figure 8

Value Chain Analysis
Electronic Manufacturing Services Industry



beginning with raw materials and ending with the final user. By disaggregating the operations necessary to deliver an end product or service, we can identify the activities that create value for the customer. This provides us with insight into areas that may be strategically critical or core to our business. Figure 8 above shows an example analysis and the changes that took place over time. Each activity in a value chain requires the

allocation of certain assets and has associated costs which are effected by structural drivers (scale economies, experience curve effects, technology, use of capital, and complexity) and executional drivers (commitment to continuous improvement, employee attitudes and organizational capabilities). [5]

List of Industry Drivers – Many times it is useful to list the factors driving the

Figure 9

Industry Drivers
Electronic Manufacturing Services Industry

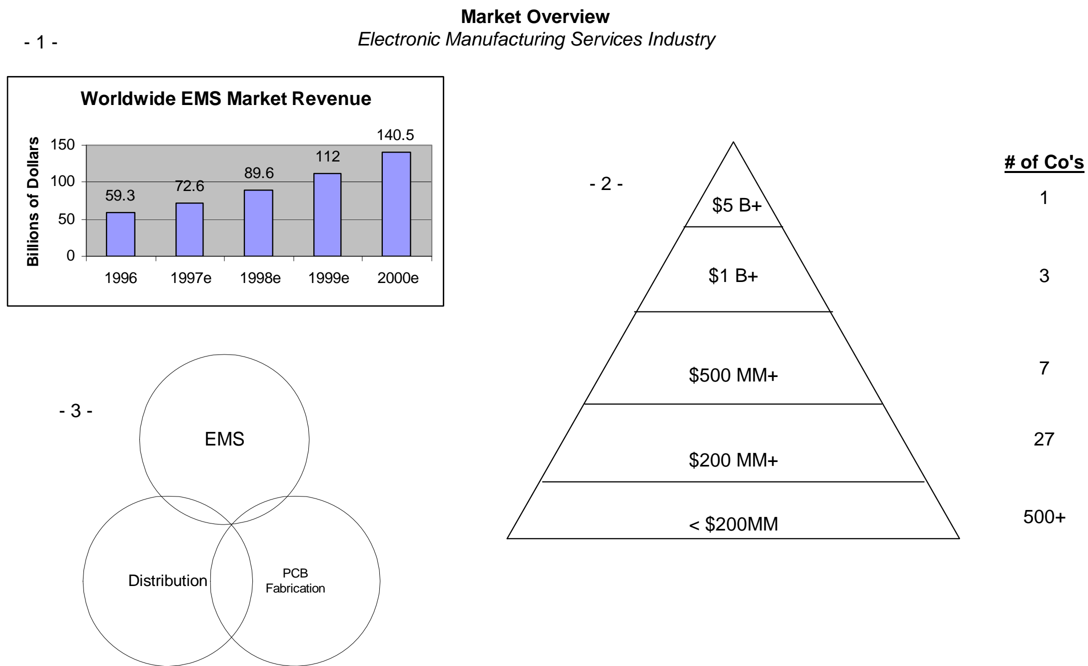
1. OEM focus on core skills and capabilities.
2. Outsourcing strategically vs. operationally.
3. Decreasing product life cycles.
4. Global competition demanding cost decreases
5. Transition from older technologies.
6. Reduced time to market.
7. Increased use of electronics in consumer and and industrial products.
8. Transition from consigned to turnkey contract manufacturing.
9. OEM's desire to reduce investment in capital expenditures.
10. OEM's desire to improve inventory management and purchasing power.
11. Access to worldwide manufacturing capability.

change or growth in a particular industry. An example has been provided in figure 9.

Market Overview – Developing a visual perspective of an overall market sometimes surfaces issues that are overlooked and provide some base data when making

certain decisions. Figure 10 is one type of overview that allows a company to put itself in its relative position to the market.

Figure 10

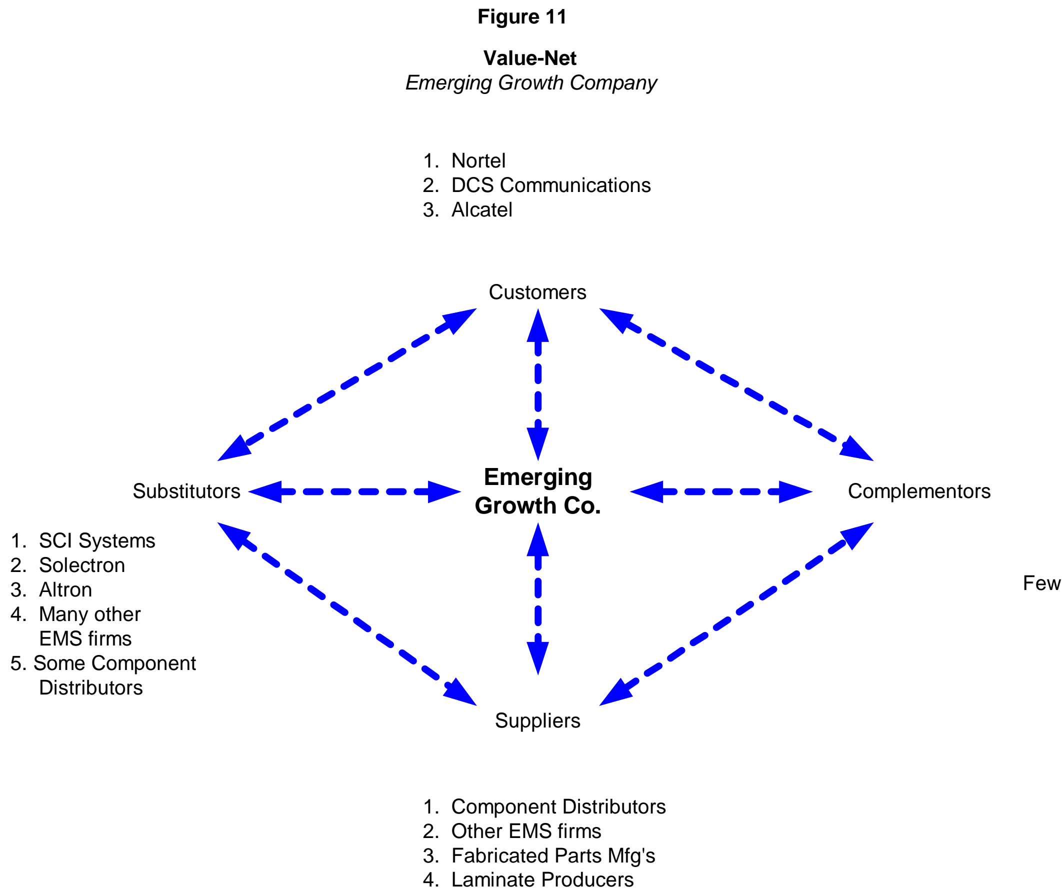


<u>Value-net Model</u> – The value-net looks similar to the five forces model, but focuses on a particular company vs. an industry. Using the terminology of game theory, the value-net is a schematic map designed to represent all of the players in the game and the interdependencies among them. Interactions take place along two dimensions. The vertical dimension is the company's customers and suppliers. Resources, such as raw materials and labor, flow from the suppliers to the company and products and services flow from the company to the customers. Horizontally shown are the players that the company interacts with but does not transact with. These are known as substitutors and complementors. The substitutors are similar to the substitutes in Porter's model; however, the complementors are players from whom customers buy complementary products and services or to whom suppliers sell complementary products or services. A

classic example of complementors is hardware and software companies. Complementors are often overlooked in traditional strategic analysis and may be natural partners or

Figure 11

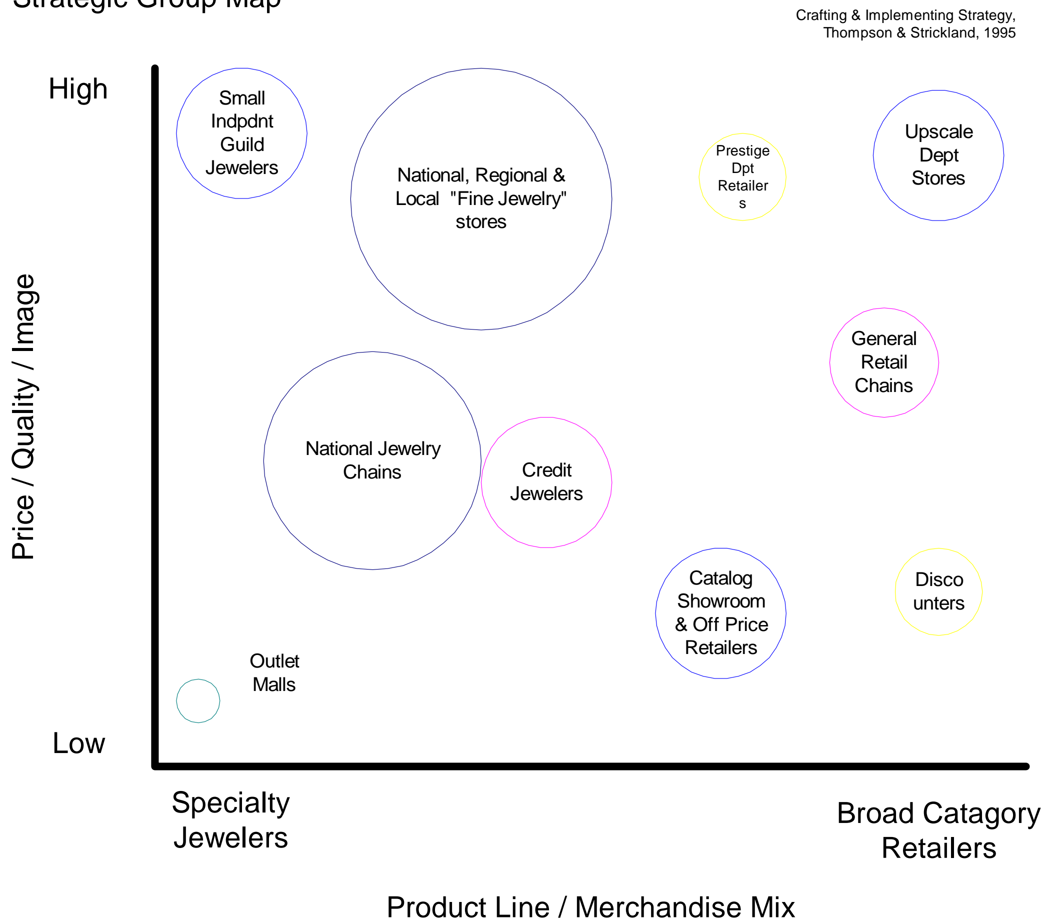
Value-Net
Emerging Growth Company



counterparts. A key use of the information derived from this analysis relates to developing strategies to change the dynamics of the game (industry). (1) Figure 11 shows a sample value-net diagram.

Strategic Group Map – A strategic group consist of rival firms with similar competitive positions in a market. Strategic group analysis can help deepen management's understanding of competitive rivalry. When creating a strategic group map, identify competitive characteristics that differentiate firms in the industry (ie: price/quality, local/national, & frills/full service). Plot the firms on a two-variable grid using pairs of differentiating characteristics. Group similar companies and circle them by

relative share of the total industry revenues. Figure 12 provides an example of a strategic group map for retail jewelers. (5)



Key Success Factors – As a final exercise, I would suggest viewing the information obtained above as if you were starting the business from scratch or as if you were consulting with a start-up company in your industry. Create a list of key characteristics or attributes that you would recommend this new company have or obtain

to overwhelmingly assure their success. Use this information as you contemplate the strategy discussed in the next section.

Step #3 - Synthesize the Information Into a Set of Objectives and Strategies

Look at the information that was gathered during the previous steps and prioritize two or three key items from each tool used. I would suggest that you form a sub-group from the participating management to tackle strategy formulation. Engage your senior team members in an off-site brainstorming session using the tools and techniques discussed below. Once complete, this sub-group should present to the whole team seeking critical input and feedback.

Figure 13a

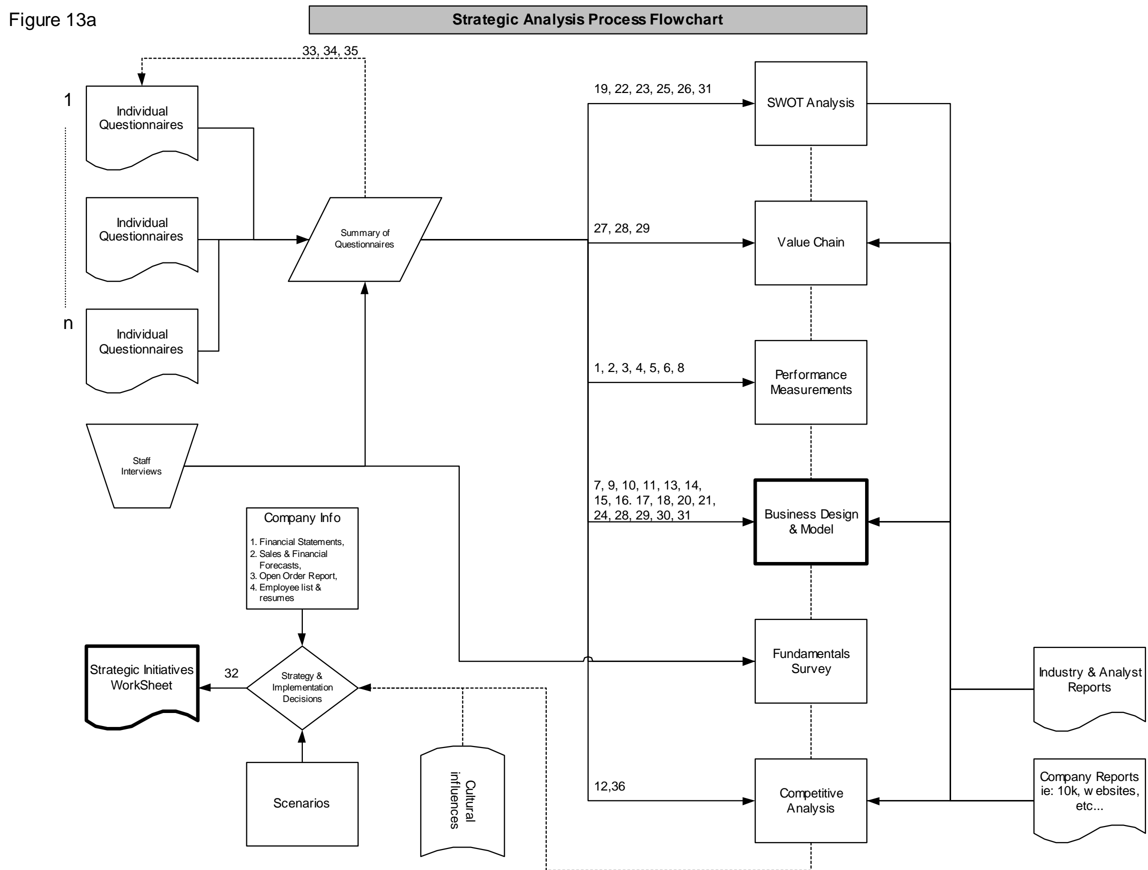


Figure 13a suggest the framework from which to begin to develop a set of objectives and to formulate a strategy. The numbers listed are the responses from the

questionnaire developed in the previous section. The arrows show the general flow of information.

The objectives define where you want the company to be in 3-5 years. Objectives must be established at a corporate, divisional and departmental levels (depending on structure). Objectives need to be challenging, understandable, clear, reasonable, quantified, time specific, prioritized, and consistent across departments. The objectives need to be established given the mission of the business and the dynamics surrounding it.

Next you need to begin to develop a various alternative strategies (or scenarios) to meet the objectives. Each scenario should be played against the objectives and the impact to the financial model. Consideration must be given as to the risks associated with each alternative and the associated rewards and outcomes. To begin the process, it may be helpful to review some generic strategies. Figures 13b, 14, and 15 provide some thought provoking insights into some generic company situations and may serve as a catalyst for your discussions. Review these in the context of the analysis completed in the prior sections and begin a draft of key initiatives required to meet the defined objectives. Consider the SWOT analysis and some generic strategies to improve the company's position:

1. Use the firm's strengths to avoid or reduce the impact of external threats.
2. Improve internal weaknesses by taking advantage of external opportunities.
3. Use defensive tactics to reduce internal weaknesses and avoid external threats.

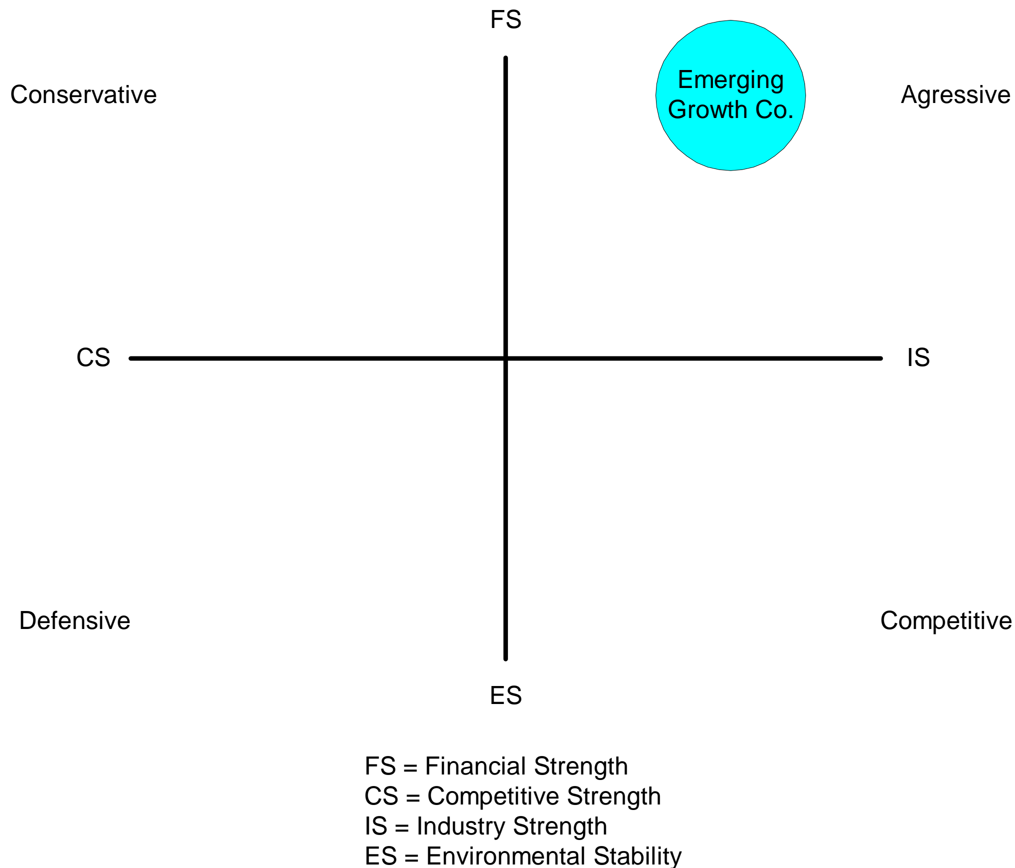
Many firms seek strategies that use one of the three tactics previously mentioned to put themselves in a position to use their internal strengths to take advantage of external opportunities.

Once the facts are revealed, as best can be done with the available resources, the participating group needs to begin to develop alternate scenarios and evaluate the risks and outcomes. Many companies fail to quantify the alternatives, risks and outcomes. It is important to have a financial model, such as the simplified one in Exhibit E, from which to evaluate the impact and feasibility of the various options. Further, it's valuable to have an assessment of current management's skills and experiences and to identify those required in looking forward.

SPACE Analysis – SPACE is an acronym for strategic position and action

Figure 13b

Strategic Position & Action Evaluation Analysis
Emerging Growth Company



evaluation. This is a widely used tool that suggests alternative strategies a firm could undertake based on four dimensions: (1) financial strength, (2) competitive advantage, (3) environmental stability, and (4) industry strength.

In figure 13b above, we have shown a growth company with a strong relative competitive and financial strength. Using the SPACE diagram would indicate using an aggressive strategy.

Strategy/Situation Suggestions – Once a company has begun to understand itself, its position, and its competition and standing; it can be helpful to review some generic strategies based on the company's situation. Figure 14 is a summary checklist for

Figure 14

Matching Strategy to the Situation

A Generic Checklist of Options & Situations

Industry Environment

* Young emerging industry.
* Rapid growth.
* Consolidating to a smaller group of competitors.
* Mature/slow growth.
* Aging / declining.
* Fragmented.
* International / global.
* Commodity product orientation.
* High technology / rapid changes.

Company Position/ Situation

* Dominant leader
  - Global
  - National
  - Regional
  - Local.

* Leader.
* Aggressive challenger.
* Content follower.
* Weak / distressed candidate for turn-around or exit.
* Stuck in the middle / no clear strategy or market image.

Situational Considerations

* External
  - Driving forces.
  - Competitive pressures.
  - Anticipated moves of key rivals.
  - Key success factors.
  - Industry attractiveness.

* Internal
  - Current company performance.
  - Strengths & weaknesses.
  - Opportunities & threats.
  - Cost position.
  - Competitive strength.
  - Strategic issues and problems.

Market Share & Investment Options

* Grow and build
  - Capture a bigger market share by growing faster than the industry as a whole.
  - Invest heavily to capture growth potential.

* Fortify and defend
  - Protect market share; grow at least as fast as whole industry.
  - Invest enough resources to maintain competitive strength and market position.

* Retrench and retreat
  - Surrender weakly held positions when forced to, but fight hard to defend core markets / customer base.
  - Maximize short-term cash flow.
  - Minimize reinvestment of capital in the business.

* Overhaul and reposition
  - Pursue a turnaround.

* Abandon / liquidate
  - Sell out
  - Close down

Generic Strategy Options

* Competitive approach
  - Overall low-cost.
  - Differentiation.
  - Best-cost.
  - Focused low-cost.
  - Focused differentiation.

* Offensive initiatives
  - Competitor strengths.
  - Competitor weaknesses.
  - End run.
  - Guerrilla warfare.
  - Preemptive strikes.

* Defensive initiatives
  - Fortify / protect.
  - Retaliatory.
  - Harvest.

* International initiatives
  - Licensing.
  - Export.
  - Multicountry.
  - Global.

* Vertical integration
  - Forward.
  - Backward.

Crafting & Implementing Strategy, Thompson & Strickland 1995

management of the most important situational considerations and strategic options.

Strategy/Competitive Position Matrix – Figure 15 provides a framework for considering diversification based on a company's competitive position and the rate of market growth.

Figure 15

Matching Strategy to the Competitive Position
A Generic Table of Options

Strategy options in probable order of attractiveness.

Competitive Position

Market Growth Rate	WEAK	STRONG
RAPID	* Reformulate single-business concentration strategy to achieve turnaround. * Acquire another firm in the same business to strengthen competitive position. * Vertical integration to strengthen competitive position. * Diversification. * Be acquired by / sell out to a stronger rival. * Abandonment.	* Continue single-business concentration. - international expansion if market opportunities exist. * Vertical integration if it strengthens the firm's competitive position. * Related diversification to transfer skills and expertise built up in the core business.
SLOW	* Reformulate single-business concentration strategy to achieve turnaround. * Merge with a rival firm to strengthen competitive position. * Vertical integration only if it substantially improves competitive position. * Diversification. * Harvest / divest. * Liquidation.	* International expansion if market opportunity exists. * Related diversification. * Unrelated diversification. * Joint ventures into new areas. * Vertical integration if it strengthens competitive position. * Continue single-business concentration to achieve growth by taking market share from weaker rivals.

Crafting & Implementing Strategy,
Thompson & Strickland 1995

Planning Organizer – The planning organizer in Exhibit C is designed to provide a framework from which to begin to document conclusions derived in the planning process. This and the Strategic Initiatives Worksheet below are the culmination of step #3 in the overall process.

Strategic Initiatives Worksheet – The worksheet provided in Exhibit C was designed to augment and compliment the planning organizer as a detailed list of initiatives to support the objectives set.

Financial Model – Key to establishing a realistic strategy is understanding the financial impact and ramifications of the decisions being made. I have included a relatively simple 5-year model in Exhibit E as an example. At a minimum, you should have some type of interactive spreadsheet that allows you to make changes in the income statement and understand the working and permanent capital needs of the business. I would suggest having a spreadsheet-based program with an income statement, balance sheet and statement of cash flows for a forecasted period of three to five years. You should have several years of historical data to base your initial assumptions.

Step #4 - Develop Action Plans

A half-day meeting should be convened to review the objectives and discuss the formulated strategy. Major initiatives should be agreed upon and documented using the strategic initiatives worksheet; you should fill-in major initiatives, responsible parties, estimated costs, and planned completion dates. During the process described in this paragraph, tough decisions may have to be made and difficult situations confronted. Companies must be realistic with themselves as to the talent necessary to meet their objectives, the financial resources available to them, and the timeliness of meeting goals.

Each responsible manager should be given a week to 10 days to create an action plan with the pertinent data per major initiative. The key steps in each action plan should be entered into the initiative worksheet as sub-items for tracking and updating

purposes. This single worksheet becomes the basis for progress reviews. You should also complete the planning organizer that allows you to see all of the key data in a single format as to where we are going and what has to be done.

The take-away documents from this process should include the following:

1. Planning organizer.
2. Strategic initiatives worksheet.
3. Financial model.
4. Updated organizational chart.
5. Backup data and information supporting key assumptions and decisions.

The process briefly described above should be done annually, with a monthly and quarterly review and update of key initiatives and progress. Review of the planning organizer should be done based on the level of responsibility of the individuals involved. The responsibilities for execution of the strategic plan must be driven to the front-line of the organization, with daily actions moving the company closer to its goals. What we have described above should set the stage for the strategic management process discussed in previous sections.

Traps to Avoid

Given the process outlined above, I thought it appropriate to identify some of the potential problems to avoid. As an overriding disclaimer, many of us have solid business instincts that are build upon years of experience and trials. There is no replacement for common sense and our gut instincts. When all is done and you reflect upon the outcome of this process, test it against your gut as a sanity check. It should make sense to you and feel right; if it doesn't, dig deeper. In addition, realize that the process described herein is a form of success insurance, meant to increase the probability of achieving your objectives; there are no silver bullets.

The best strategy, poorly implemented, is of little value and a flawed strategy executed well will fail. A strategy needs not be brilliant, as long as it is sound, is well conceived, and avoids the obvious errors. The key is not to make the really dumb mistakes. Below is a list of seven common traps in strategic planning to be used as a reality checklist as you contemplate your plan [(4)]:

1. Failing to recognize and understand events and changing conditions in the competitive environment.
2. Basing strategies on a flawed set of assumptions.
3. Pursuing a one-dimensional strategy that fails to create or sustain a long-term competitive advantage.
4. Diversifying for all the wrong reasons. Ill-considered diversification strategies based on growth for its own sake or portfolio-management strategies often create negative synergy and a loss of shareholder value.

5. Failing to structure and implement mechanisms to ensure the coordination and integration of core processes and key functions across organizational boundaries.
6. Setting arbitrary and inflexible goals and implementing a system of controls that fail to achieve a balance among culture, rewards, and boundaries.
7. Failing to provide the leadership essential to the successful implementation to strategic change.

A primary issue that surfaces in failed strategy and planning is the lack of fact based decisions with validated assumptions. Many growth company CEO's have grand-plans but fail to put the resources and human capital in place to execute and implement.

Follow-on Activities

The planning process occurs repeatedly on the continuum of progress in a company's growth. Below are some suggested activities for successful implementation and execution of your strategy:

- Build an organization capable and willing of carrying out the strategy and plan.
- Develop budgets that steer resources into those internal activities critical to strategic success.
- Establish strategy-supportive policies.
- Motivate people in ways that induce them to pursue the target objectives energetically and, if need be, modify their duties and job behavior to better fit the requirements of successful strategy execution.
- Monitor progress daily.
- Tie the reward structure to the achievement of targeted results.
- Create a company culture and work climate conducive to successful strategy implementation.
- Install internal support systems that enable company personnel to carry out their strategic roles effectively day to day.
- Institute best practices and programs for continuous improvement.
- Exert the internal leadership needed to drive implementation forward and to keep improving on how the strategy is being executed.
- Repeatedly use the planning pyramid as the basis for future decision.
- Walk the talk with your stakeholders.

References

(1) The Right Game: Use Game Theory to Shape Strategy, Adam M. Brandenburger and Barry J. Nalebuff, © 1995.

(2) Competitive Strategy: Techniques for Analyzing Industries and Competitors, Michael E. Porter, Free Press © 1980.

(3) On Competition, Michael E. Porter, Harvard Business Review Books, © 1998.

(4) Adapted from Mission Critical: The 7 Strategic Traps the Derail Even the Smartest Companies, by Joseph C. Picken and Gregory G. Dess. © 1996.

(5) Crafting & Implementing Strategy, Thompson & Strickland, © 1995.

(6) Built to Last, Successful Habits of Visionary Companies, James C. Collins & Jerry I. Porras, © 1997.

(7) Building Your Company's Vision, James C. Collins & Jerry I. Porras, Harvard Business Review, Sept-Oct 1996.

Recommended Reading

To develop a more in-depth understanding of the topic discussed herein, below is a list of recommended readings for your review:

- Competitive Strategy: Techniques for Analyzing Industries and Competitors, Michael E. Porter, Free Press © 1980.
- Crafting & Implementing Strategy, Thompson & Strickland, © 1995.
- The Next Level, James B. Wood with Larry Rothstein, © 1999.
- Strategic Management, an Integrated Approach, Charles W.L. Hill & Gareth R. Jones, © 1998.
- Competing for the Future, Gary Hamel & C.K. Prahalad, © 1994.
- Built to Last, Successful Habits of Visionary Companies, James C. Collins & Jerry I. Porras, © 1997.
- Building Your Company's Vision, James C. Collins & Jerry I. Porras, Harvard Business Review, Sept-Oct 1996.

Exhibit A

Confidential Questionnaire

for

Emerging Growth Company Strategic Planning

Fiscal Year
2001

Completed by

Strategic Planning Questionnaire

This questionnaire will be kept in confidence. The success of the planning process is highly dependent on your candid and complete feedback; your input is important. Responses will be compiled and fed back to the group without identifying you. Your response pages will not be shared with anyone. In advance, thanks for your time and thoughtful responses.

1. Please describe the scope of your responsibilities. If you like, you may attach a current job description.

2. What are your objectives for this fiscal year? Please describe in as much detail as possible (see the definition of "objectives" as defined at the end of this questionnaire).

3. How is your performance measured and what incentive(s) do you have to meet / exceed your objectives?

4. What are the major issues confronting you in achieving your objectives?

5. What is your understanding of the Company's long-term objectives?

6. What is your role in achieving those long-term objectives?

7. How should the long-term objectives be modified?

8. How do you measure the performance of the Company?

9. Below is a copy of the mission / vision statement currently being published by the Company. How accurate is the stated mission / vision as it relates to your perspective of the Company. If you started with a clean sheet, what would you write as a mission / vision for the Company?

10. What are the key values of the Company?

11. What should the key values of the Company be?

12. Please list the top three competitors of the Company and what each one does best.

You may want to review the attached thought provoking questions concerning industry & competitive analysis before responding to questions 13 thru 20.

13. What industry is the Company in?

14. What fundamental forces are driving the industry?

15. What do you believe are the critical skills, capabilities, resources, and factors that the Company should possess in the future (3 yrs) to be competitive in the industry?

16. Please list the key weaknesses or downside in participating in this industry.

17. What are the positive attributes of this industry?

18. List the services that you believe the Company should be providing (and why) in the year 2000.

19. What opportunities are not currently being exploited in this industry?

20. What could change the fundamentals of the industry positively or/and negatively and what would the impact be to the Company? (consider economic, business, technology, etc…) please be specific.

You may want to review the attached thought provoking questions concerning competitive situation analysis before responding to questions 19 thru 27.

21. What is the Company's current strategy in the industry and how well is it working?

22. What are the Company's key weaknesses?

23. What are the Company's key strengths?

24. What does the Company do best?

25. Where does the Company provide the most value to the Customer?

26. How and where could the Company provide greater value to the Customer?

27. What opportunities is the Company currently missing and why?

28. What are the Company’s top three problems that it must resolve to continue to grow, be competitive and reach its objectives?

29. Given the general theme and content of this document, what question(s) do you believe should have been ask in this questionnaire that wasn’t? How would you answer that question?

30. Has this questionnaire caused you to rethink your perception of the Company? To rethink how the Company should be positioned in the market place?

31. Any feedback or general comments?

Objectives

Objectives must be established at a corporate, divisional and departmental levels (depending on structure). Objectives need to be challenging, understandable, clear, reasonable, quantified, specify time element, prioritized, and consistent across departments. Objectives provide direction and purpose. Below are some examples:

1. Financial Objectives.
   a. Revenue.
   b. Earnings.
   c. Growth rates.
   d. Ratios.
   e. Margins.
   f. Cash flow.
   g. Dividends.
   h. Valuation.

2. Strategic Objectives.
   a. Market share.
   b. Industry rank.
   c. Quality.
   d. Cost relative to competitors.
   e. Reputation.
   f. Capabilities.
   g. Customer satisfaction.
   h. Attractiveness of product/service lines.
   i. Customer service.

3. Operating Objectives.
   a. Capacity.
   b. Headcount.
   c. Turnover.

The following are thought-provoking questions that relate to the strategic planning questionnaire. You are NOT expected to answer these questions, but to merely read and think about them.

Competitive Situation Analysis

1. How well is the present strategy working?

2. What are the company's strengths, weaknesses, opportunities, and threats (SWOT analysis)?
   a. Strengths (core skills or key areas of capability).
   b. Weaknesses (profitability, clear direction, missing skills, functional skills, etc…).
   c. Opportunities (externally).
   d. Threats (externally).

3. Are the company's prices and costs competitive?

4. How strong is the company's competitive position?
   a. Important core competencies.
   b. Strong market share (or leading share).
   c. A pacesetting or distinctive strategy.
   d. Growing customer base and customer loyalty.
   e. Above average market visibility.
   f. In a favorable situated strategic group.
   g. Concentrating on fast-growth market segment.
   h. Strongly differentiated products/services.
   i. Cost advantage.
   j. Above average profit margins.
   k. Above average technological and innovational capability.
   l. A creative, entrepreneurially alert management.
   m. In position to capitalize on opportunities.

5. How weak is the company's competitive position?
   a. Confronted with competitive disadvantages.
   b. Losing ground to rival firms.
   c. Below average growth in revenues.
   d. Short on financial resources.
   e. A slipping reputation with customers.
   f. Trailing in product/service development.

g. Weak in areas where there is the most important market position.
h. A higher cost producer/servicer.
i. Too small to be a major factor.
j. Not in a good position to deal with emerging threats.
k. Poor service quality.
l. Lack skills and capabilities in key areas.

6. What strategic issue does the company face?
7. Conclusion concerning competitive position?

Industry & Competitive Analysis

1. What are the industry's dominant economic traits?
    a. Market size.
    b. Scope of competitive rivalry (local, regional, national, or global).
    c. Market growth rate.
    d. Stage of market (early development, rapid growth, early maturity, late maturity, stagnant, declining).
    e. Number of rivals and relative size.
    f. Is the market fragmented?
    g. Number of buyers and their relative size.
    h. The prevalence of backward and forward integration.
    i. Ease of entry and exit.
    j. The pace of technological change in production process innovation and new product introduction.
    k. Whether the products/services of rival firms are highly differentiated, weakly differentiated, or essentially identical.
    l. Whether companies can realize scale economies in purchasing, manufacturing, transportation, marketing or advertising.
    m. Whether high rates of utilization are crucial to achieving low-cost production efficiency.
    n. Whether the industry has a strong learning and experience curve such that average unit cost declines as cumulative output builds up.
    o. Capital requirements.
    p. Industry profitability is above/below par.

2. What is competition like and how strong are each of the competitive forces.

   a. Rivalry among competing sellers in the industry.
   b. The market attempts of companies in other industries to win customers over their own substitute products/services.
   c. The potential entry of new competitors.
   d. The bargaining power and leverage exercisable by suppliers of inputs.
   e. The bargaining power and leverage exercisable by buyers of products/services.

3. What is causing the industry's competitive structure and business environment to change? ie: what are the <u>industry drivers</u>?
   a. Long-term industry growth rates.
   b. Changes in who buys and how they use it.
   c. Product innovation.
   d. Technological change.
   e. Marketing innovation.
   f. Entry or exit of major firms.
   g. Diffusion of technical know-how.
   h. Increasing globalization.
   i. Changes in cost and efficiency.
   j. Emerging buyer preferences.
   k. Regulatory influences.
   l. Changing societal concerns and attitudes.
   m. Reduction of uncertainty and business risks.

4. Which companies are the strongest and weakest positions?
5. What strategic moves are rivals likely to make next? What moves have been made to date?
6. What are the <u>key success factors (KSF)</u> for competitive success?
   a. Technology related.
   b. Manufacturing related.
   c. Distribution related.
   d. Marketing related.
   e. Skills related.
   f. Organizational capability.
   g. Other.

7. Is the industry attractive and what are its prospects for above average profitability?

Exhibit B

Fundamentals Survey

		Average
Item	**Issue**	**Rating***
1	*Management Team Strength*	
	Industry knowledge & experience	
	Functional knowledge & experience	
	Experience with this size co.	
	Experience with this stage co.	
	Energy & time commitment	
	At or below mid-point of capability	
	At or below mid-point of capacity	
	Willingness to grow and learn	
	Vested interest and incentive	
2	*Dependence on the Owner/founder*	
	Knowledge w/respect to other mgnt:	
	Management experience	
	Industry knowledge	
	Technical skills	
	Decisions get pushed up to the O/F	
	O/F is growing as fast as the co.	
3	*Infrastructure*	
	Scaleable	
	Defined roles & communication	
	Information systems	
	Financial controls	
	Defined reporting & measurements	
	Integrated planning process	
	Defined operating process	
	Disciplined sales forecasting process	
4	*Capital Formation*	
	Defined exit plan	
	Understanding of comparable co's.	
	Agreed upon bank commitment	
	Financial strategy & plan	
	Contingency sources of capital	
	Relationships with capital sources	
5	*Strategic Plan*	
	Clearly defined & measurable goals	
	Defines key initiatives	
	Incorporates accountability	
	Is realistic	
	In sync. With O/F objectives	
	Incorporates industry/ext dynamics	

Exhibit C

PLANNING ORGANIZER

CORE VALUES	PURPOSE (Why)	OBJECTIVES (3 – 5YRS) (Where)	GOALS (1YR.) (What)
1.		Future Date:	Yr. Ending:
2.		Revenues :	Revenues:
3.		Profit :	Profit :
4.		Market Cap :	Mkt. Cap
5.		*Qualitative Description*	Gross Margin :
6.			Cash
			A/R Days:
BHAG	Envisioned Future		Inv. Days:
			Rev./Emp.
		Strategic Initiatives	***{these are the key items shown on the initiatives worksheet}***
		1.	
		2.	
		3.	
		4.	
		5.	
		6.	
			Critical #
			Focus # for the team

Adapted from the Planning Pyramid Organizer by 1st Principles Group © 1999

Exhibit D

Strategic Initiatives Worksheet

Item	Focus / Description	Responsible Party	Estimated Cost	Actual Cost	Planned Completion	Actual Completion	Status / Comments
1	**Initiative #1**						
A	detailed action						
B	detailed action						
C	detailed action						
D	detailed action						
E	detailed action						
F	detailed action						
2	**Initiative #2**						
A	detailed action						
B	detailed action						
C	detailed action						
D	detailed action						
E	detailed action						
3	**Initiative #3**						
A	detailed action						
B	detailed action						
C	detailed action						
D	detailed action						
E	detailed action						
4	**Initiative #4**						
A	detailed action						
B	detailed action						
C	detailed action						
D	detailed action						
E	detailed action						
F	detailed action						

Exhibit E

Financial Model

Company Name	Emerging Growth Company
Enter first forecasted year as 4 digits (e.g. 1993)	2000
Are you a taxable "C" corporation (Y or N)?	Y
=='C' CORPORATION FORMAT SELECTED==	**INCOME TAXES WILL BE COMPUTED**

STATISTICAL DATA	2000	2001	2002	2003	2004
Days sales in accounts receivable	30	32	30	30	30
Days materials cost in inventory	30	32	30	25	25
Days finished goods in inventory	45	40	30	25	25
Days materials cost in payables	60	50	50	40	40
Days expenses accrued:					
Payroll expense	7	7	7	7	7
Operating expense	20	20	20	20	20

FORECASTED BALANCE SHEETS

	Actual			Forecasted		
ASSETS	1999	2000	2001	2002	2003	2004
CURRENT ASSETS						
Cash and cash equivalents	$451,000	$486,957	$573,745	$927,738	$505,952	$600,486
Accounts Receivable	350,000	493,151	613,699	657,534	698,630	821,918
Inventory	400,000	595,890	606,027	542,466	551,370	592,466
Other current assets	10,000	0	0	0	0	0
Total current assets	1,211,000	1,575,998	1,793,471	2,127,738	1,755,952	2,014,870
FIXED ASSETS						
Land	100,000	150,000	150,000	200,000	200,000	250,000
Buildings	1,500,000	1,450,000	1,450,000	1,500,000	1,500,000	1,550,000
Equipment	800,000	875,000	875,000	975,000	975,000	1,075,000
	2,400,000	2,475,000	2,475,000	2,675,000	2,675,000	2,875,000
Less-accumulated depreciation	400,000	516,667	658,334	811,668	965,002	1,130,003
Total fixed assets	2,000,000	1,958,333	1,816,666	1,863,332	1,709,998	1,744,997
INTANGIBLE ASSETS						
Cost	50,000	50,000	50,000	60,000	60,000	70,000
Less-accumulated amortization	20,000	25,000	30,000	36,000	42,000	49,000
Total intangible assets	30,000	25,000	20,000	24,000	18,000	21,000
OTHER ASSETS	25,000	0	0	0	0	0
Total Assets	$3,266,000	$3,559,331	$3,630,137	$4,015,070	$3,483,950	$3,780,867

LIABILITIES AND STOCKHOLDERS' EQUITY	*Actual* 1999	*Forecasted* 2000	2001	2002	2003	2004
CURRENT LIABILITIES						
Accounts payable	$600,000	$328,767	$287,671	$342,466	$328,767	$350,685
Notes payable	100,000	50,000	40,000	25,000	20,000	10,000
Current portion of long-term debt	100,000	100,000	100,000	100,000	100,000	100,000
Income taxes	30,000	89,719	117,215	147,440	66,617	119,823
Accrued expenses	90,000	72,789	87,523	111,781	144,334	165,918
Other current liabilities	16,000	12,000	10,000	7,000	5,000	3,000
Total current liabilities	936,000	653,275	642,409	733,687	664,718	749,426
NON-CURRENT LIABILITIES						
Long-term debt	600,000	500,000	400,000	300,000	200,000	100,000
Deferred income	100,000	90,000	75,000	50,000	25,000	10,000
Deferred income taxes	30,000	27,000	25,000	20,000	7,000	3,000
Other long-term liabilities	50,000	40,000	30,000	20,000	15,000	10,000
Total liabilities	1,716,000	1,310,275	1,172,409	1,123,687	911,718	872,426
STOCKHOLDERS' EQUITY						
Capital stock issued	100,000	100,000	100,000	100,000	100,000	100,000
Additional paid in capital	50,000	50,000	50,000	50,000	50,000	50,000
Retained earnings	1,400,000	2,099,056	2,307,728	2,741,383	2,422,232	2,758,441
	1,550,000	2,249,056	2,457,728	2,891,383	2,572,232	2,908,441
Total Liabilities and Equity	$3,266,000	$3,559,331	$3,630,137	$4,015,070	$3,483,950	$3,780,867

FORECASTED STATEMENT OF INCOME AND RETAINED EARNINGS

	Forecasted				
	2000	2001	2002	2003	2004
SALES					
Sales	$6,000,000	$7,000,000	$8,000,000	$8,500,000	$10,000,000
Cost of sales	3,500,000	3,850,000	4,100,000	5,050,000	5,450,000
Gross profit	2,500,000	3,150,000	3,900,000	3,450,000	4,550,000
EXPENSES					
Operating expenses	1,251,400	1,495,800	1,905,000	2,457,350	2,940,500
Depreciation	141,667	141,667	153,334	153,334	165,001
Amortization	5,000	5,000	6,000	6,000	7,000
	1,465,067	1,697,467	2,106,584	2,645,684	3,131,501
EBIT	1,034,933	1,452,533	1,793,416	804,316	1,418,499
OTHER INCOME AND EXPENSES					
Interest	67,000	55,000	42,250	29,000	19,000
Gain (loss) on sale of assets	100,000	0	0	0	0
Other (net)	0	0	0	0	0
	100,000	0	0	0	0
Income before income taxes	1,134,933	1,452,533	1,793,416	804,316	1,418,499
INCOME TAXES	385,877	493,861	609,761	273,467	482,290
Net income	749,056	958,672	1,183,655	530,849	936,209

STOCKHOLDERS' EQUITY

	Actual	*Forecasted*				
	1999	2000	2001	2002	2003	2004
STOCKHOLDERS' EQUITY						
Capital stock issued	$100,000	$100,000	$100,000	$100,000	$100,000	$100,000
Additions	N/A	0	0	0	0	0
Reductions	N/A	0	0	0	0	0
Ending balance	$100,000	$100,000	$100,000	$100,000	$100,000	$100,000
Additional paid in capital	$50,000	$50,000	$50,000	$50,000	$50,000	$50,000
Additions	N/A	0	0	0	0	0
Reductions	N/A	0	0	0	0	0
Ending balance	$50,000	$50,000	$50,000	$50,000	$50,000	$50,000

FORECASTED STATEMENTS OF CASH FLOW

	Forecasted				
	2000	2001	2002	2003	2004
CASH PROVIDED FROM (USED BY) OPERATIONS					
Net earnings (loss)	$749,056	$958,672	$1,183,655	$530,849	$936,209
Add-depreciation and amortization	146,667	146,667	159,334	159,334	172,001
Less-depreciation on assets sold	(25,000)	0	0	0	0
Net cash provided from (used by) operations	870,723	1,105,339	1,342,989	690,183	1,108,210
CASH PROVIDED FROM (USED BY) OPERATING ACTIVITIES					
Accounts Receivable	(143,151)	(120,548)	(43,835)	(41,096)	(123,288)
Inventory	(195,890)	(10,137)	63,561	(8,904)	(41,096)
Other current assets	10,000	0	0	0	0
Other non current assets	25,000	0	0	0	0
Accounts payable	(271,233)	(41,096)	54,795	(13,699)	21,918
Current portion of long-term debt	0	0	0	0	0
Income taxes	59,719	27,496	30,225	(80,823)	53,206
Accrued expenses	(17,211)	14,734	24,258	32,553	21,584
Other current liabilities	(4,000)	(2,000)	(3,000)	(2,000)	(2,000)
Dividends paid	(50,000)	(750,000)	(750,000)	(850,000)	(600,000)
Net cash provided from (used by) operations	(586,766)	(881,551)	(623,996)	(963,969)	(669,676)
INVESTMENT TRANSACTION INCREASES (DECREASES)					
Land	50,000	0	50,000	0	50,000
Buildings and improvements	(50,000)	0	50,000	0	50,000
Equipment	75,000	0	100,000	0	100,000
Intangible assets	0	0	10,000	0	10,000

Net cash used by (provided from) investment transactions	75,000	0	210,000	0	210,000
FINANCING TRANSACTION INCREASES (DECREASES)					
Short term notes payable	(50,000)	(10,000)	(15,000)	(5,000)	(10,000)
Long term debt	(100,000)	(100,000)	(100,000)	(100,000)	(100,000)
Deferred income	(10,000)	(15,000)	(25,000)	(25,000)	(15,000)
Deferred income taxes	(3,000)	(2,000)	(5,000)	(13,000)	(4,000)
Other long-term liabilities	(10,000)	(10,000)	(10,000)	(5,000)	(5,000)
Capital stock and paid in capital	0	0	0	0	0
Net cash provided from (used by) financing transactions	(173,000)	(137,000)	(155,000)	(148,000)	(134,000)
Net increase (decrease) in cash	35,957	86,788	353,993	(421,786)	94,534
Cash at beginning of year	451,000	486,957	573,745	927,738	505,952
Cash at end of year	$486,957	$573,745	$927,738	$505,952	$600,486

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SALES AND COST OF SALES

	Forecasted				
	2000	2001	2002	2003	2004
REVENUE					
Product 1	$6,000,000	$7,000,000	$8,000,000	$8,500,000	$10,000,000
Product 2	0	0	0	0	0
Product 3	0	0	0	0	0
Product 4	0	0	0	0	0
	6,000,000	7,000,000	8,000,000	8,500,000	10,000,000
COST OF SALES					
Direct labor	1,000,000	1,200,000	1,500,000	2,000,000	2,200,000
Materials	2,000,000	2,100,000	2,500,000	3,000,000	3,200,000
Other costs	500,000	550,000	100,000	50,000	50,000
Operating expenses allocated	0	0	0	0	0
Pre-opening expenses	0	0	0	0	0
	3,500,000	3,850,000	4,100,000	5,050,000	5,450,000
Gross profit	$2,500,000	$3,150,000	$3,900,000	$3,450,000	$4,550,000
Percent	41.67%	45.00%	48.75%	40.59%	45.50%

OPERATING EXPENSE DATA

	2000	2001	2002	2003	2004
Commisions as % of sales	2.00%	2.00%	2.50%	3.00%	4.00%
Payroll taxes as % of payroll	12.00%	12.00%	15.00%	15.00%	15.00%
Bad debts as % of sales	1.50%	1.50%	2.00%	2.00%	2.00%
Health Insurance as % of payroll	5.00%	5.00%	5.00%	6.00%	6.00%
Workmens Compensation Ins as % of payroll	5.00%	5.00%	5.00%	6.00%	6.00%

OPERATING EXPENSES

			Forecasted		
	2000	2001	2002	2003	2004
Payroll-executives	$100,000	$125,000	$150,000	$250,000	$300,000
Payroll-others	200,000	225,000	250,000	300,000	350,000
Payroll-commissions	120,000	140,000	200,000	255,000	400,000
Payroll taxes	170,400	202,800	315,000	420,750	487,500
Advertising	50,000	60,000	70,000	80,000	90,000
Auto and truck expenses	50,000	60,000	75,000	80,000	90,000
Bad debts	90,000	105,000	160,000	170,000	200,000
Computer expenses	50,000	60,000	70,000	80,000	90,000
Dues and subscriptions	10,000	12,000	20,000	25,000	35,000
Entertaining and travel	25,000	35,000	40,000	50,000	60,000
Insurance-general	50,000	55,000	60,000	70,000	75,000
Insurance-health	71,000	84,500	105,000	168,300	195,000
Insurance-workmens comp	71,000	84,500	105,000	168,300	195,000
Legal and accounting	25,000	30,000	40,000	50,000	60,000
Maintenance and repairs	40,000	50,000	60,000	75,000	80,000
Office supplies & postage	25,000	30,000	40,000	50,000	55,000
Rent	50,000	50,000	75,000	75,000	85,000
Telephone	20,000	25,000	30,000	35,000	40,000
Utilities	30,000	35,000	40,000	45,000	50,000
Misc Dept A	1,000	15,000	0	5,000	1,000
Misc Dept B	3,000	12,000	0	5,000	2,000
Allocated to cost of sales(-)	0	0	0	0	0
Total expenses	$1,251,400	$1,495,800	$1,905,000	$2,457,350	$2,940,500

SHORT-TERM NOTES PAYABLE SCHEDULE

Balance at End of	Notes Payable Amount	Notes Payable Rate	Interest Expense in 1999	2000	2001	2002	2003	2004
1999	$100,000	(as.0000)	$100,000					
2000	50,000	10.00%		50,000				
2001	40,000	10.00%			40,000			
2002	25,000	9.00%				25,000		
2003	20,000	10.00%					20,000	
2004	10,000	10.00%						10,000
This year's Interest				5,000	4,000	2,250	2,000	1,000
(If debt was outstanding more or less than a full year adjust the interest cost here)				0	1,000	0	0	0
Interest cost for short term notes payable				$5,000	$5,000	$2,250	$2,000	$1,000

LONG-TERM DEBT SCHEDULE

Balance at End of	Total	Due Next Year	Due After	Average Rate	Interest Expense in 2000	2001	2002	2003	2004
1999	$700,000	$100,000	$600,000	(AS .0000)					
2000	600,000	100,000	500,000	10.00%	60,000				
2001	500,000	100,000	400,000	10.00%		50,000			
2002	400,000	100,000	300,000	10.00%			40,000		
2003	300,000	100,000	200,000	9.00%				27,000	
2004	200,000	100,000	100,000	9.00%					18,000
This year's Interest					60,000	50,000	40,000	27,000	18,000
(If debt was outstanding more or less than a full year, adjust the interest cost here)					2,000	0	0	0	0
Interest cost for long term debt					$62,000	$50,000	$40,000	$27,000	$18,000

FIXED AND INTANGIBLE ASSETS

DEPRECIATION AND AMORTIZATION (Do Not Enter Dispositions Here)

LAND	Cost
Beginning balance	$100,000
Additions in year	
2000	50,000
2001	0
2002	50,000
2003	0
2004	50,000

				Annual Depreciation Calculation				
			Opening	1	2	3	4	5
BUILDINGS	Cost	Life	Balance	2000	2001	2002	2003	2004
Beginning balance	$1,500,000	30	$200,000	$50,000	$50,000	$50,000	$50,000	$50,000
Additions in year								
2000	50,000	30		1,667	1,667	1,667	1,667	1,667
2001	0	0		0	0	0	0	0
2002	50,000	30		0	0	1,667	1,667	1,667
2003	0	0		0	0	0	0	0
2004	50,000	30		0	0	0	0	1,667
If depreciation is over or understated, adjust here				0	0	0	0	0

				Annual Depreciation Calculation				
			Opening	1	2	3	4	5
EQUIPMENT	Cost	Life	Balance	2000	2001	2002	2003	2004
Beginning balance	$800,000	10	$200,000	$80,000	$80,000	$80,000	$80,000	$80,000
Additions in year								
2000	100,000	10		10,000	10,000	10,000	10,000	10,000
2001	0	0		0	0	0	0	0
2002	100,000	10		0	0	10,000	10,000	10,000
2003	0	0		0	0	0	0	0

2004	100,000	10		0	0	0	0	10,000
If depreciation is over or understated, adjust here				0	0	0	0	0
Annual depreciation			$400,000	$141,667	$141,667	$153,334	$153,334	$165,001
Accumulated depreciation			$400,000	$541,667	$683,334	$836,668	$990,002	$1,155,003

INTANGIBLE ASSET/AMORTIZATION SCHEDULE

				Annual Amortization Calculation				
			Opening	1	2	3	4	5
INTANGIBLES	Cost	Life	Balance	2000	2001	2002	2003	2004
Beginning balance	$50,000	10	$20,000	$5,000	$5,000	$5,000	$5,000	$5,000
Additions in year								
2000	0	0		0	0	0	0	0
2001	0	0		0	0	0	0	0
2002	10,000	10		0	0	1,000	1,000	1,000
2003	0	0		0	0	0	0	0
2004	10,000	10		0	0	0	0	1,000
If amortization is over or understated, adjust here				0	0	0	0	0
Annual amortization			$20,000	$5,000	$5,000	$6,000	$6,000	$7,000
Accumulated amortization			$20,000	$25,000	$30,000	$36,000	$42,000	$49,000

INCOME TAX CALCULATIONS

		From	2000	2001	2002	2003	2004
Income before income taxes		1999	$1,134,933	$1,452,533	$1,793,416	$804,316	$1,418,499
TAX CALCULATION							
STATE INCOME TAX							
NOL Carryover	0	0					
State taxable income			1,134,933	1,452,533	1,793,416	804,316	1,418,499
STATE INCOME TAX as (.0000)	0.00%		0	0	0	0	0
FEDERAL INCOME TAX							
Federal income before NOL			1,134,933	1,452,533	1,793,416	804,316	1,418,499
NOL Carryover	0	0					
Federal taxable income			1,134,933	1,452,533	1,793,416	804,316	1,418,499
Brackets (CHANGE AS REQUIRED):							
Federal income tax			385,877	493,861	609,761	273,467	482,290

From	To	Tax	% on excess
0	50,000	0	15.00%
50,000	75,000	7,500	25.00%
75,000	100,000	13,750	34.00%
100,000	335,000	22,250	39.00%
335,000		0	34.00%

	2000	2001	2002	2003	2004
If income tax is over or understated adjust here	0	0	0	0	0
Total income tax	$385,877	$493,861	$609,761	$273,467	$482,290

KEY RATIOS

	2000	2001	2002	2003	2004
Debt to Equity	0.58	0.48	0.39	0.35	0.30
Times Interest Earned	17.94	27.41	43.45	28.74	75.66
Net Working Capital	$922,723	$1,151,062	$1,394,051	$1,091,234	$1,265,444
Working Capital To Assets	0.26	0.32	0.35	0.31	0.33
Current Ratio	2.41	2.79	2.9	2.64	2.69
Quick Ratio	1.5	1.85	2.16	1.81	1.9
Days Sales Outstanding	30	32	30	30	30
Inventory Turnover (year end)	5.87	6.35	7.56	9.16	9.2
Return On Sales	12.48%	13.70%	14.80%	6.25%	9.36%
Return On Total Assets	21.04%	26.41%	29.48%	15.24%	24.76%
Return On Equity	33.31%	39.01%	40.94%	20.64%	32.19%

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About the Author

Kenneth H. Marks is a Principal and Managing Partner of High Rock Partners, Inc. www.HighRockPartners.com (formerly Marks & Company Inc.) providing strategic advisory and corporate development services. We are value creators serving emerging growth and middle-market companies… with a focus on growth, finance, exit strategies, M&A, new business development, corporate partnering, problem-solving, and turnarounds.

In partnership with HRP, company leaders can leverage our extensive global operating, corporate finance and transaction experience. As value creators we provide both the leadership and tactical support to assist companies in developing, implementing, and executing integrated solutions to their strategic needs and opportunities. In select situations, we invest our capital to facilitate or accelerate change.

Marks' past positions included President of JPS Communications, Inc., a fast growth technology subsidiary of the Raytheon Company and President / CEO of an electronics manufacturer that he founded and grew to $22 million. He work for a local investment bank focused on debt for early stage companies during the late 1990's.

He has been involved as management, advisor or board member with over a dozen and a half emerging growth and middle market companies ranging from a venture backed software startup, INC. 500 staffing firm, environmental construction company, safety products distributor….to a middle-market insurance services provider.

Mr. Marks was a Director of a North Carolina based regional investment bank focused on raising capital for emerging growth companies. Prior to that position, he was the President of a small publicly traded company and President and CEO of an electronics manufacturer he founded and grew to $20 million in revenue.

He was a member of the Young Presidents Organization (YPO); the founding YPO Sponsor of the Young Entrepreneurs Organization (YEO) in the Research Triangle Park, North Carolina Chapter; a member of the Council for Entrepreneurial Development, a member of the Association for Corporate Growth; and a member of the board of directors of the North Carolina Technology Association.

He is the lead author of the "Handbook of Financing Growth: Strategies & Capital Structure" published by John Wiley & Sons, and he authored the publication "Strategic Planning for Emerging Growth Companies: A Guide for Management".

Mr. Marks obtained his MBA from the Kenan-Flagler Business School at the University of North Carolina in Chapel Hill, and his undergraduate studies were in electrical engineering at North Carolina State University.

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