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IBIS - SPECIALISTS IN BUSINESS PLANNING. 18 YEARS EXPERIENCE AND THE BEST SELLING BOOK, **A BUSINESS PLAN** (FINANCIAL TIMES PUBLISHED, NATIONAL WESTMINSTER BANK SPONSORED, TRANSLATED INTO 11 LANGUAGES), ISBN 0273 63562X.

IBIS EMPHASISE A QUANTIFIED AND OBJECTIVE APPROACH TO THE ANALYSIS OF BUSINESS PLANS WITH A UNIQUE SCORING SYSTEM AVAILABLE FREE OF CHARGE AT THEIR WEB SITE - www.ibisassoc.co.uk

The Ibis newsletter now has readers in 33 countries – some of whom have been suggested by colleagues or associates. Should you wish to be removed from the list, let us know. Should you know of anyone who should be added to the list, let us know. Suggestions (hopefully polite) always welcome. Contact: info@ibisassoc.co.uk

FORECASTING FOR CONTROL IN THE DOWN TURN

The recent changes in the business climate have emphasised the need to have effective demand and cost forecasting systems in place to take action before disaster strikes. There are a number of basic "housekeeping" tools which help the SME in improving its overall understanding of the environment:

- The creation of as many customer and supplier contracts/ understandings as possible which will provide forward information from the customer/ supplier
- The maintenance of the necessary range of monitoring modules within the company information system to identify changes in operating performance.

Beyond these organisational tools which significantly stabilise the business and put it closer to its customers, suppliers and internal operating efficiencies, there is a need for more sophisticated monitoring approaches in most SME operations.

Recent software advances have produced three effective solutions for the SME, which can provide much of the high level of information which has traditionally been provided by the

modelling departments of larger companies. The software is cheap (relatively) and has become much more user friendly. Ibis has one clear favourite – but we are not getting a commission!

The problems with using such a package are far outweighed by the benefits. The first is to ensure that the information system is structured so that the forecasting software can produce useful results. The obvious first step in the SME is to focus on the cash flow system as this can be most easily transferred into the forecasting package(s).

The next step is to structure the cash flow system so that it is "forecast friendly". What this means is to separate the revenue streams into sensible areas for analysis. This may be contribution by area, customer, distribution channel, product or service group, or sales development streams. As Ibis monitored companies have separate revenue streams from sales to existing customers, expanding sales to existing customers, selling to new customers and selling new products and services this is where the forecasting is initially introduced. It has been proved to be a very powerful method of identifying potential problems in the revenue streams. Other divisions are just as useful for other companies.

It is then important to consider the key cost centres within the business. Again this may require some re-organisation of the cash flow system so that these can be easily identified and integrated into the software.

The final step is then to integrate semi-variable and fixed costs to provide a new forecast cash position, from which new profit and loss and balance sheets can be easily generated. This system provides the SME manager and the investor with further important information about the way in which the business is developing and allow them to take corrective action before "headless chicken" time occurs in the downturn – it will also allow them to more rapidly identify trends in the upturn.

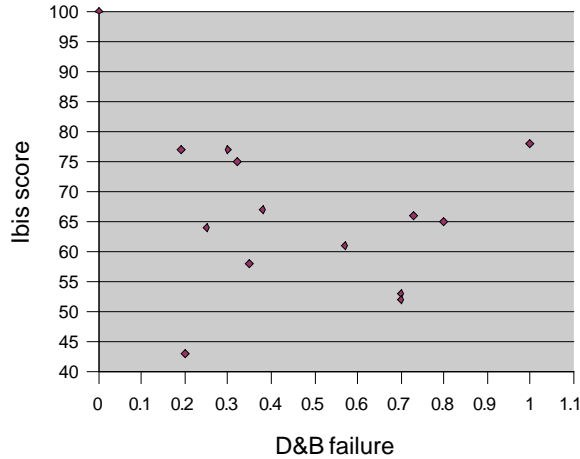
- DB

EUROPEAN SMALL BUSINESS SEMINAR (ESBS) – PAPER SUMMARY

At the 31st ESBS in Dublin, Ibis presented additional research on their approach to business plan creation and monitoring. The paper proposed that the SME community should cease concentrating on business "failure" but should look at creating business systems which would improve success rates, while reducing failure. For Europe, there is strong external validation of the model's strength in providing a measure of potential pure failure in its correlations with Dun and Bradstreet data. Though there are two anomalous scores, (Norway and Italy) the overall regression line between average plan scores and pure failure rates has a strong correlation

Figure 3: Dun & Bradstreet failure rates vs Ibis plan scores

D&B failure vs Ibis score:



Source: D&B European Business failure rates 1999 vs Ibis overall country scores

The conclusions drawn from this data suggest that there is an effective link between a structured approach to business plan analysis and the potential to reduce the level of "pure" failure present in the business sector. Investors and managers prepared to invest in the time required to use such a system are likely to be rewarded with a far more profitable and effective client base than those which rely on a purely subjective assessment of the plan. The *Ibis* analysis system provides one such approach; over a number of years it has been shown to work, but more analysis and development is obviously required to provide further refinements to the system.

Improving success

Changing the planning process towards one which is continuous rather than static will have an impact of enabling the business to build up and improve its operational effectiveness. This is a fundamentally new approach to business planning – creating it from the monitoring building blocks – a bottom up rather than top down approach. Ibis has created a series of such monitoring modules which can be systematically introduced into the SME to generate incremental improvements. The current overview list is as follows:

<i>Data centre</i>	<i>Impact</i>	<i>Typical data points</i>
Contribution analysis	Focuses organisation on understanding from which key customer segment/ area the business is generating profitable revenue	Sales by customer type, region, contract, distribution channel
Product/ service analysis	Focuses organisation on understanding from which key product or service the business is generating profitable revenue	Sales by product/ service type
Competitive analysis	Helps organisation understand where it is gaining competitive advantage	Growth against market, product range against market, price levels against market
Market assumptions	Makes businesses agree on key assumptions; monitors changes in key issues so that plans can be re-assessed when necessary	Macro, competitive, internal key issues which will drive the success of the plan

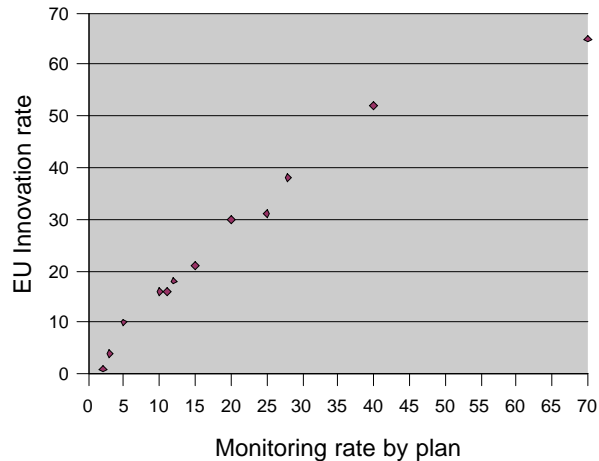
<i>Data centre</i>	<i>Impact</i>	<i>Typical data points</i>
Financial management	Concentrates business on key financial ratios	Profitability, activity and liquidity ratios
Customer satisfaction	Establishes a regular mechanism whereby key issues in customer retention can be reviewed and problems identified	Key performance indicators against which customer retention will be achieved
Marketing management	Monitors the returns achieved from marketing investment	Sales effectiveness, marketing investment effectiveness
Sales revenue streams – existing business, increased sales from existing business, new business, new products	Monitors the returns achieved through each sales development channel. Enables the company to break down its sales and marketing effort into discrete areas which can then be individually controlled	Sales by key customers, new customers, new products
Personnel management	Monitors effectiveness of personnel environment	Skills levels, productivity, turnover, training, control
Production/ service logistics / management	Monitors effectiveness of production/ delivery systems	Manufacturing costs, logistic costs, internal quality performance
Information management	Monitors the way in which the company is introducing information technology into the operation	Trends in information access, research systems
New product development management	Sets a structure which will drive new product development	Idea collection, strategic review, team development, process management
Contingency planning	Creates action plans against plan divergence	Sales, profit, cost levels

Source: Ibis

The maintenance of these monitoring modules has very significant effects on corporate performance. Across the range of companies monitored, the average improvement in gross profit is now in excess of 5 per cent, and return on capital employed of 4 per cent. More impressive is the impact on skills enhancement, labour retention and new product/ service development rates. Growth rates are also significantly increased. Such improvements are not due to one single change; rather they come about as a whole series of incremental changes as the company learns to work smarter and not necessarily harder.

There is a range of supporting external evidence to support the real returns from these types of systems. One comes from correlations between the EU database on national differences of rates of new product development in technology. When measured against the Ibis database of those companies reporting internal monitoring systems for new product development there is a very high correlation between the plan data and the EU findings. Scandinavian countries which have high overall plan scores also normally report the maintenance of new product development information systems (in excess of 50 per cent of companies analysed), while a country such as Greece has a much much lower level of such monitoring systems.

EU Innovation vs NPD monitoring rate



Source: EU / Ibis

This suggests that at least for new product development the existence of structured monitoring systems has a major impact on one output criteria - one of the most important for the small to medium enterprise. More information on this article is available as a download at www.ibisassoc.co.uk

- AW

• COMMONWEALTH MANUAL DEVELOPMENT PROGRAMME

Ibis has continued to develop business planning manuals for the Commonwealth Secretariat. The Stage 1 manual for existing companies with 5-25 employees has now been completed. Over 60 plans have been completed using the system and appraised. The structure based around a formal business operational business plan, provided in Part 1 of the manual has been well received, and businesses can cut and paste the material available as a Word download, which makes it rapid and easy to use. 23 newsletter readers have contributed towards its development – many thanks to all who took part. The current version **1.6** is available for continuing evaluation as a download on the Ibis site – until it is transferred to the Commonwealth next year.

The Stage 2 manual is designed to build on Stage 1 by introducing a series of monitoring modules around which companies can improve the operating efficiencies in particular parts of their business and build towards the benchmark based driven "best of practice" management information systems. The manual is designed for companies between 50 and 200 employees. The manual is again based around a question and worked example system. The questions for Stage 2 are:

- What is your business trying to achieve in the long term?
- Does your business understand the changes in the market?
- From which part of the market is your company making money?
- From which products or services is your company making money?
- How is your company performing against the competition?
- What assumptions do you need to make about market changes?
- Do you have a clear strategy?
- Do you have specific targets for the future of the business?

Have you the skilled management to develop the business?
Does your personnel management system support your business?
Does your information management system support your business?
Are your customers satisfied with the product or service you supply?
Are your production/ service delivery facilities adequate for the plan?
How effective is the management of your production or service delivery?
How effective is your marketing and sales management?
What are your forecast sales next year to your existing customers?
Can you expand sales to existing customers?
Can you expand sales to new customers?
How effective is your new product/ service development?
How effective is your financial management?
Can you reduce your variable costs?
Can you reduce your fixed costs?
Is your company effectively managing its profitability?
Can you improve your cash flow management?
Is your business effectively managing its assets?
Have you effective action planning?
Have you an effective contingency plan?

It is these concepts which research has shown growing companies need to focus on to manage their growth. The integration of such systems reduces the risk inherent in many companies of going from infancy to senility without the necessary period of maturity.

The manual will be available for review by interested readers within the next two weeks.

- RR

- **STANDARD OPERATING PROCEDURES SPEED SKILLS DEVELOPMENT**

Research in Germany looked at the achievement levels of specific company skills and knowledge of the company operations for new employees in medium to large established companies and small entrepreneurial organisations.

The research found that the knowledge base was much higher on average in the established firms at the end of the initial three month period. The differences were put down to formal induction schemes and the availability of standard operating procedures in the larger companies.

The study was not all bad news for the smaller companies – employee job satisfaction was much higher in the smaller firms.

What this does reveal is that smaller firms are missing out on one important way of gaining competitive advantage – ensuring that the skills and knowledge gradient is maximised in the early months of new employment.

- MK

- **DIFFERENT SUPPORT PERCEPTIONS OF INVESTORS AND FIRMS**

Research on what firms wanted from their investors and what the investors thought they required reveals two entirely different perceptions. The study, conducted by Christophe Bonnet at ESCG Grenoble (christophe.bonnet@esc-grenoble.fr), found that investors (mainly venture capitalists) saw their most useful role as providing strategic advice – the big picture. What the majority of the invested firms wanted most was not strategic advice – it was detailed help with specific operational issues – or broader business mentoring.

- AW

• SOME USEFUL SERVICES

Ibis is asked from time to time to suggest additional services which may be of interest to readers. We include three such offerings:

Cordis (EU) can supply a regular newsletter with European IPR which companies want to either licence or sell. Contact n.rathbone@cordis.lu

Value consulting can help businesses value their IPR as part of a funding or sale process. They work across Europe. Contact www.valuation-consulting.co.uk

Angel Investor are able to put a brief summary of the key points of the business plan onto CD Rom to improve the potential for gaining that essential initial impact for all businesses. Contact: colinmcclaren@angelinvestor.co.uk

• AND OF COURSE, THE COMMERCIAL

Ibis is involved in three main areas of activity:

Business plan monitoring. Ibis creates an information system which provides at least 200 items of information on a monthly basis – customer, area, product sales, financial management efficiencies, manufacturing or service supply efficiencies, information systems, competitive analysis, personnel efficiencies, customer satisfaction, marketing efficiencies, and new product/ service development efficiencies. Wherever possible these performance charts are now benchmarked against European and sector best practice. This control system integrates the business plan with the continuing development of the business. This system reduces investor risk and improves corporate performance

Business plan analysis (including identifying stress issues in rapidly growing companies)

Business plan creation to gain funding and improve profitability

Ibis now monitors over 150 companies across Europe, and has a growing team of business plan advisors.

The book, A Business Plan, 3rd edition, Financial Times Management, ISBN 0273 63562X contains more detail on the Ibis approach.

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