1994

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American Institute of Certified Public Accountants. Communications Division

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FINANCIAL PLANNING FOR YOUR BUSINESS

A Speech for CPAs to Deliver to General Audiences

#890678

November 1994

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As a CPA, one of the most important services I can provide to my clients is assisting them in preparing a viable business plan. For the next half hour or so, I would like to present you with my thoughts and suggestions as to why a business plan is so essential to the success of your business and how you should go about formulating one.

Before we get into the specific components of a good business plan, let’s begin by trying to define the concept of the "business plan."

Quite simply, the plan will serve as a road map for your business. We are all familiar with the old adage that, "If you don’t know where you are going, you will probably end up somewhere else." This old saying applies equally for businesses.

Regardless of whether you are a start-up enterprise or an existing business considering expansion, it is essential that you identify your specific business goals and your strategies for accomplishing them. This is the primary purpose of a business plan — to provide you with a sense of direction.
The business plan begins with an honest evaluation of where you currently stand in the marketplace, where you ultimately want to be, and concludes by mapping out the steps you will need to take to get there.

There are many benefits to having a formal business plan, and these benefits apply to persons both inside as well as those outside of the business.

Clearly, as the business owner, you are the primary beneficiary of a formal business plan. The plan will provide you with a "big picture" of the business. As we will discuss later, the formulation of a business plan begins with an in-depth examination of your company’s strengths and weaknesses. During this process, you can focus on the changes you might have to make as future challenges arise.

In addition, by focusing on the strengths and weaknesses of the business, you can acquire a better understanding of organizational dynamics within the company, and generate ideas and programs for strengthening it.
A formal business plan also will benefit your management team. First, the plan will define and clarify the responsibilities and lines of authority among the various members of the team. It also will address their future roles during times of expansion, as the company develops new product and service lines, or enters new markets.

With the business plan to assist them, management can evaluate your company’s resources to determine its capabilities and limitations. With this information, it will be easier for them to decide how to allocate corporate resources among the various project areas, product lines, cost centers and market areas.

Management also will be able to formulate specific means of setting performance goals for employees, and have a basis for communicating those expectations to them.

In fact, your employees will benefit directly from having a formal business plan.
Organizational behavior studies indicate that cohesiveness and teamwork are enhanced when employees are presented with mutual challenges and goals. Because the business plan will incorporate quantitative performance standards, such as sales quotas, quality control and performance objectives, it will give your employees a sense of direction, and perhaps even an increased sense of involvement in the company's future.

Finally, the existence of a formal business plan will serve as a valuable source of information for third parties outside of the business. It is not unusual for outside lenders or investors, as well as prospective purchasers, to request or even require a review of the business plan as part of their due diligence and investigative efforts. Thus, the business plan is an essential component of any sales presentation to investors or potential purchasers. Similarly, the existence of a business plan can serve to strengthen your bargaining position when you are negotiating with perspective lenders, investors and purchasers.

You can bet that before lenders advance funds to your business, they are
going to ask some very difficult and demanding questions about the future of your business. And you can rest assured that they are going to look for very specific and definitive answers.

For example, perspective lenders will demand detailed quantitative analysis to support your profit and growth projections. And they will want to evaluate your company’s ability to respond to external challenges. They might want to know, for instance, what you think your competitors will do in the future and how you will maintain your advantage over them. Or, how will your business respond to technological advancements and regulatory changes?

These third parties also will want to discuss internal challenges. For example, they might ask: "How will you ensure the continued loyalty of your key employees?" Or, "How will you replace your key employees if they leave, retire or die?"

Similar questions will come from perspective purchasers. If you are negotiating the sale of your business, you will have to justify your asking
price. Regardless of whether the proposed sales price is based on a factor of projected earnings or on underlying asset values, you must have specific market data to support your valuation of the business.

If you anticipate seeking any outside financing, or contemplate the possibility of selling your business, you must have a business plan that is presentable to lenders, investors and interested purchasers. In fact, your business plan should be prepared with a view toward these third parties. As a word of caution, let me mention that these parties, and their advisers, usually are quite experienced in reviewing and evaluating business plans. They will pay close attention to whether or not the plan contains realistic goals and an appropriate analysis of the strengths and weaknesses of your business.

Now that we have defined the business plan and its importance to the success of the business, let’s look at the specific steps required to develop one.

There are at least five stages involved in developing a properly structured
business plan. Remember that your CPA is equipped with the knowledge and experience to guide you through the process.

The first and perhaps the most important aspect of the business plan is the formulation of a "mission statement" or statement of purpose. The mission statement simply asks: Why are you in business? Your answer might be, "To earn a profit." Or it could be to secure your employment. Or, you may be in business to provide a good or service that fills a need in the marketplace. The mission statement will define your business' purpose and its reason for being. It will also identify your philosophy about doing business.

The specific wording of the mission statement will vary depending upon the nature of the business. It is typically comprised of a few sentences that address how the key factors of the business, such as products, service, customers, employees and owners, can be uniquely organized to lead the business to success. Here is a sample mission statement for a fast-food restaurant:
The Fast Food Company is committed to serving the needs of its customers by providing quality food in the shortest turnaround possible. Fast Food Company seeks to develop and maintain a highly-trained staff and a track record of profitable operations.

Regardless of the nature of the business, the formulation of a mission statement is the essential first step in the process, because the business objectives and philosophies set forth in the mission statement will guide the remaining steps in the development of the plan.

The second stage in the development of a business plan is to define the nature of your business as it currently exists. This process requires extensive analysis. You must identify as clearly as possible the products or services you provide as well as the customers who use them. In other words, who are your potential customers and what, if any, are your geographical limits?

For example, if you are currently selling a product that is widely used outside of your area, keep in mind that you may need a substantial
investment in shipping and transportation to reach all potential customers.

In attempting to identify the nature of the business, you also should specifically identify its strengths and weaknesses, as well as how easily it adapts to a changing business environment. In doing so you will need to address a variety of questions such as: What are the needs of the customers in your market? What is the size of the potential market for your business? What do industry statistics and projections say about your market? What life cycle stage is your company and its industry currently in?

The business owner should also identify and evaluate current competitors in the marketplace. A business plan is not complete unless the owner asks questions such as: Who are my competitors and what is their relative market share compared to mine? What are my competitors currently doing? What are the advantages and disadvantages of my competitors’ products compared to mine? How can I focus promotion and advertising to capitalize on my strengths and my competitors’ weaknesses?
Finally, to properly define the current status of your business, appropriate attention should be given to analyzing the current and projected financial position of the business. This step requires the preparation of financial statements such as balance sheets, income (profit and loss) statements and cash flow statements. Ideally, the business plan should contain current and projected cash flow statements as well as cash flow statements setting forth organizational goals. Here, the assistance of the CPA is essential.

The third step in developing a business plan is defining the organizational structure of the business. In other words, what is the chain of command, where are lines of authority drawn, and how will responsibilities be delegated? Likewise, how can you strengthen the organization and improve internal communication? Also, what kinds of changes in the organizational structure will be necessary as the business plan is implemented? And, what are the future roles of management and who will be responsible for leading the course?

The fourth stage of the process is the establishment of future goals and
objectives for the business. This is the "where-you-want-to-be" aspect of the business plan. That is, what is your desired market share, sales volume, production goals and performance, and quality control objectives?

Clearly, the "goals and objectives" phase requires a great deal of quantitative analysis. It is an area of the development phase where the CPA can provide invaluable input.

In setting your business goals, you should consider several issues.

First, make certain your personal and company goals are compatible. Then determine whether or not these goals are feasible in light of the current status of your business. Also, you should clearly define and document your goals so they can be easily understood, consistently applied and periodically evaluated by management. Finally, the only worthwhile goals is a measurable goal. It is not sufficient to say you want to be successful. A properly structured goal will define and quantify what is meant by success, i.e., increasing sales by 10 percent within six months.

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The fifth and final phase of the business plan is the development of specific strategies or action steps to accomplish your goals. This is the "how you are going to get there" component of the plan.

Once you have established your business goals, you should map out the specific steps management must take to reach your chosen objectives. You should be as specific as possible in spelling out the elements of your plan of action. Answer who, what, when and how for each step. This will help you to organize responsibilities and coordinate efforts among the management team and through the ranks of your employees.

Keep in mind that specific strategies should be developed for each area of your business. Each department, product or service line, and profit and cost center will have a role to play in accomplishing your objectives — and be held accountable for its successes and failures.

If one of the goals you set forth is to increase your market share by five percent, for example, then sales quotas should be clearly communicated to the sales department. Your marketing department should be given
specific guidance as to how it will support the sales department through advertising and promotional campaigns. The finance department will need instructions as to how it should reallocate capital in order to expand production. Also, the manufacturing and production departments will need a plan for meeting increased demands, in a timely manner and with acceptable quality levels.

As the business owner, you may find that to achieve these goals, some departments in your organization will have to be restructured to coordinate efforts throughout the organization.

Let me conclude by saying that the process of developing a business plan is probably as useful and valuable to the business owner as the plan itself. One of the primary benefits of having a business plan lies in the fact that it demands a great deal of self-examination on your part, and continual evaluation and re-evaluation.

These periodic self-examinations will give you a better understanding of your organization, put you in a better position to minimize your
weaknesses and capitalize on your strengths, and help you to identify new business opportunities. Most important, you will be able to adapt to an ever-changing business environment.

Once the business plan has been prepared, it should be evaluated annually. Again, your CPA can provide assistance in determining whether quantitative goals have been met, and if not, whether your expectations have become unreasonable or unattainable. Your CPA will also know if changes should be made to the business plan in light of changes in the marketplace.

Because CPAs are experienced in providing advice to a wide range of businesses in a variety of industries, they can help you develop and implement a business plan that addresses the challenges you face as well as the opportunities. With their help, your business may be better positioned to reach its full potential.

Now, I’d be happy to take any questions you may have.
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