

FACTS SHEET – April 2004

BUSINESS BASICS

Consider....

A businessman walks to his shop in the early hours of the morning, unlocks the front shop door, switches the sign from Closed to Open, turns the lights on, and starts what will become another 10 hour day. At the end of that day, he turns off the lights, switches the sign to Closed again and goes home. He does the same the next day, and the next, week after week, month after month, and year after year.

The business owner runs a business for no other return other than a wage. Like a lot of businesses, nothing changes. He may desire more profits, or more staff to assist him, or more staff to give him some time off. He may desire greater prestige, or a better business to eventually sell for a better retirement. But this growth or development doesn't take place because nothing changes. He goes to the shop, opens up, and works it as best he can, then he closes and goes home - day after day.

For a business to grow or develop, a business has to change. This change does not have to be radical. But it does have to come. This change also has to be reasonable, logical, affordable and planned. The shop owner may decide to employ a shop assistant. This may provide him with less work in the business to consider how better to operate the business. But, can he afford it? What are the constraints? Can he time the change, or change other things in the business to bring it about?

Before an organisation implements strategic changes, it is important to understand the basic components of the business. In every organisation, be it a church, the military, a government agency or business, will, by necessity, have four basic components which ensure that it can operate:

Operations
Marketing
Human Resources
Financial Resources

Naturally, there is argument from some consultants and business advisors that other components ought to be included. However it can also be argued that these other components are merely sub-components of the above.

For example, the sub-components of Operations could include:

- Production
- Research & Development
- Distribution

- Administrative systems
- Communications

Marketing sub-components could include:

- Branding
- Sales
- Patents & Trademarks
- Advertising
- Promotion

Human Resources sub-components could include:

- Owners
- Management
- Staffing
- Staff Development & Training
- Payroll

Financial Resources sub-components could include;

- Accounting
- Costing
- Treasury
- Asset Management
- Tax Planning & Compliance

The four basic components can also be viewed as providing a simple methodology for planning. The growth and further development of the organisation is generally considered to come from the Operations and Marketing Activities. The Human Resources and Financial Resources are generally considered to be the Constraints of the organisation.

**Constraints
of the organisation are from:**

Human Resources

Financial Resources

**Activities that provide for
Growth & Development:**

Operations

Marketing

The problem with most businesses is that they wish to see everything work in tune together, when in actual fact the Activities that drive a business forward is being held back by the Constraints. A business works well when a balance between the Activities and Constraints is found. To do so means that all the components of the business has to be considered and integrated into any plan, whether that plan is a tactical short term plan or of a strategic longer term nature.

How does this work?

Periodically most businesses ask (or should ask) *'how can we further grow the business?'* This question generally leads to an analysis and discussion concerning Operations and/or Marketing. Some questions which may be asked are:

- Do we have new product & services / how can we improve upon them?
- Can we improve our delivery of product & services?
- Can our systems improve?
- How can we capture more of the market?
- Are there other markets that we have not yet explored?
- Can we develop new markets?

When these questions are raised and addressed, the next step will usually be ‘*what are the constraints to this growth?*’ In other words, can we afford to run with the projects that are to grow our business?

- Do we have sufficient staff to handle the additional workload?
- Do our staff have the experience or the training?
- How much will these projects cost?
- Do we have sufficient cash resources or access to financial resources to handle these projects?
- When will these projects run?

Strategically, these questions are usually raised in Business Planning. Simplistically, a Business Plan will seek to detail:

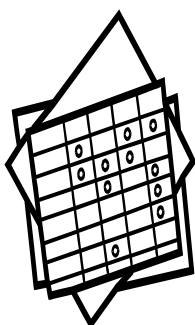
- Where are we Now
- What are our Goals
- How can we get there.

A SWOT (Strengths, Weaknesses, Opportunities and Threats) analysis can be used to arrive at the Where Now position. The Goals are workshopped to determine the personal, professional and business goals of the owner/managers.

Action Plans are the detail, the ‘How can we get there’ of the business plan. Action Plans explicitly detail and quantify the desires and constraints of the business. Furthermore, they detail the projects that the company is using to attain its goals and review the logic and the viability of these projects. They do so by providing the following:

A Visual Representation of Operational & Marketing Changes

Development opportunities arising out of Operations and Marketing are usually best displayed by utilising some kind of timeline, chart or calendar. The important factors when reviewing an organisation’s development are the logic, reasonableness and the commonsense behind the development. For example, ensuring a new product is well marketed is one thing, but doing so before it is available for sale may not be appropriate.



Staffing and Financing Budgets

Constraints concerning the human and financial resources of the organisation can, and should, be quantified. In this regard, it is important to note that not only should the **value** of these costs be ascertained, but **when** those costs arise. Accordingly, these constraints should be quantified using spreadsheet tools over the period of development. Put bluntly, if you have a small organisation and you are considering

the implementation of a major change then you will need to know how much it is going to cost and whether you have enough hours in the day to do it.

The above analysis for the four basic components of an organisation, (Operations, Marketing, Human and Financial Resources) can then be reviewed for overall reasonableness and presented in a management plan that could include:

- Direction of the organisation over the coming year
- Timeline project chart
- Operations plan
- Marketing plan
- Staffing plan
- Finance plan

If you desire a change to your organisation, then please contact Farmilo & Co. We have expertise in both Business Planning (strategic long term planning) and Action Planning (tactical short term planning for the coming months or year). Further, Farmilo & Co are accredited Centrique Action Planning specialists.

Important: *The information contained in this Facts Sheet is not advice. Many of the comments in this Facts Sheet are general in nature and anyone intending to apply the information to practical circumstances should seek professional advice to independently verify their interpretation and the information's applicability to their particular circumstances. Also please note that changes to legislation may occur quickly.*

For more information, or if you would like assistance, please contact Farmilo & Co.

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