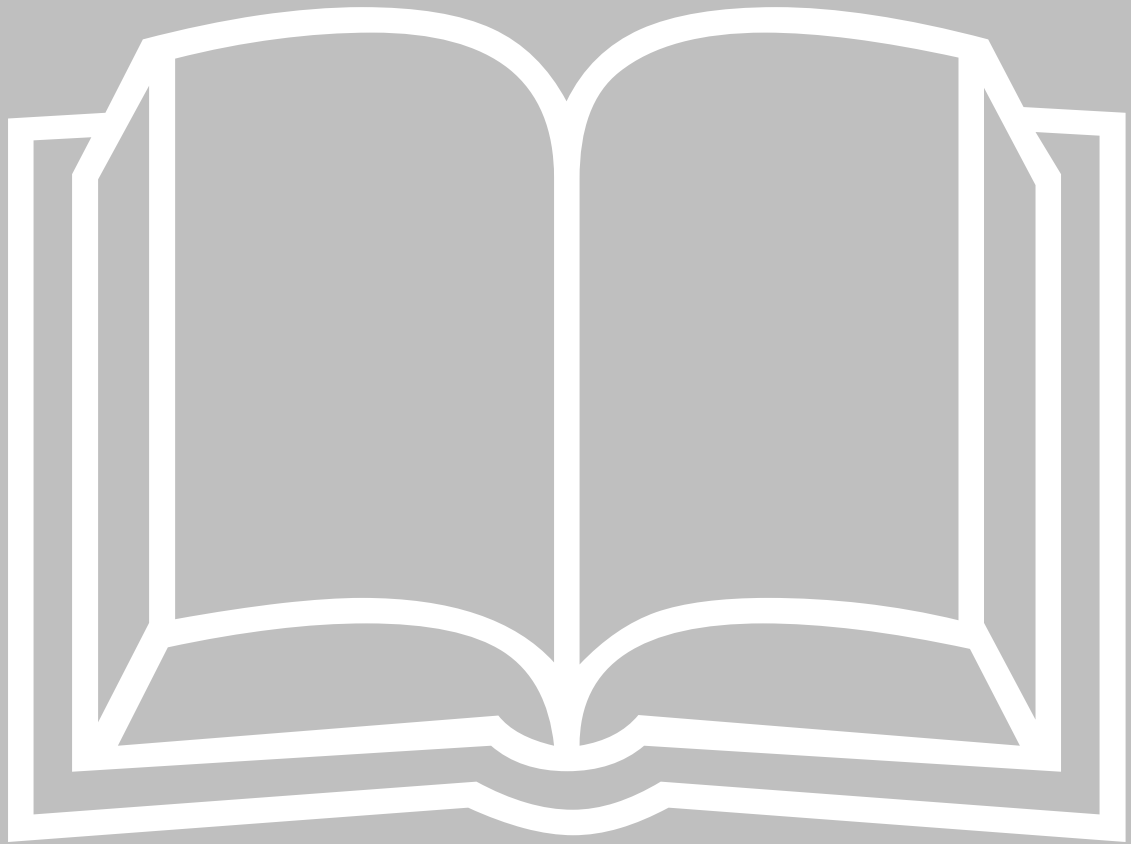


Guide To Starting A Business



Managing Your Business

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MANAGING A BUSINESS

Business is an economic institution whose goal is economic survival and whose activities are dominated by the profit motive. Its primary purpose is to create and satisfy a customer and make a profit. To achieve this purpose, business must be skillfully managed.

Management is defined as the art of conducting and supervising a business or as using judgment in business affairs. A manager is one who actively directs, controls and manipulates his or her business environment in a manner that takes account of the risks involved in order to realize monetary gain.

Successful business leaders have stressed those good management skills, whether in a large corporation or in a one-person business are vital to the success of a business. Many small business people may be good at launching their venture, but weak in managing the development and later stages of the business.

One way to strengthen management skills is by Strategic Planning. Ask ten people for a definition of strategic planning and you will probably receive ten different answers. Most agree that it is a way to identify long-term goals and to direct your company toward fulfilling those goals.

Strategic planning involves:

- a) Assessing the current business environment.
- b) Defining your company's mission.
- c) Deciding what you want the business to look like in three to five years.
- d) Recognizing your company's
 - Strengths
 - Weaknesses
 - Opportunities
 - Threats
- e) Mapping out a course to take the company from its current to its desired position.



Management by Objectives

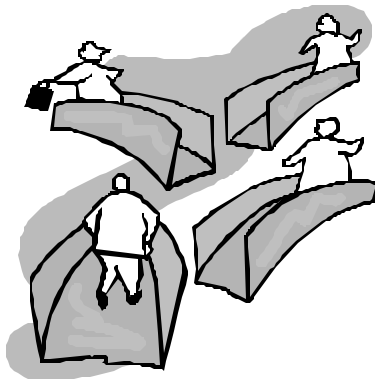
Objectives are fundamental to the operation of a business. An objective is a written statement of results to be achieved, defining specific outcomes and establishing performance levels for the business, its manager and its employees. Objectives must be set for both the short and long range. They must be reasonable, attainable, measurable, detailed and time specific. They should be commitments, not facts, directions, not fate. An objective must have a means and a plan of accomplishment.

An example of an objective might be "to increase my business from \$24,000 to \$36,000 in the next 12 months." Another might be "to prepare, have printed and distribute 1,000 flyers to shoppers in the local mall, all within two months." Others might be "to hire and train a new sales clerk before the end of the fiscal year" or "to telephone each account receivable at the end of each month and to personally visit accounts that are more than six weeks delinquent."

Objectives should be written for every phase of a business, such as sales, service, bookkeeping, advertising, employee relations and marketing. Note that objectives should be written and reviewed frequently.

Take action and do not procrastinate! If something is not working as you planned, do something about it - now! Don't become paralyzed by inaction. Every well-developed business plan should detail how the following will be accomplished:

- *Deciding* - Determining what must be done.
- *Planning and scheduling* - Setting time tables.
- *Performing* - Following through on decisions.
- *Controlling* - Monitoring events as they occur.
- *Coordinating* - Ensuring that each objective is in harmony and not at odds with the others.
- *Recording and documenting* - Keeping accurate and complete records.
- *Analyzing and evaluating* - Studying records.

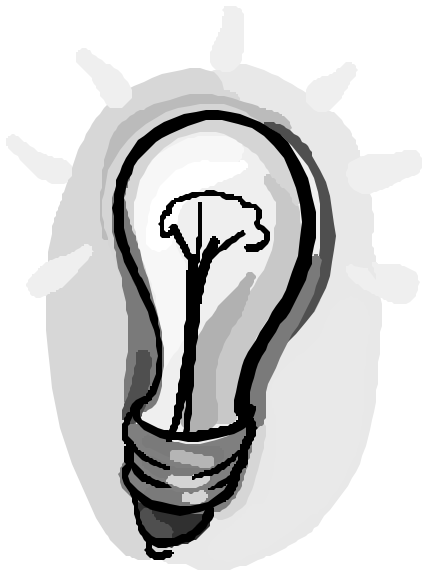


IS STRATEGIC PLANNING NECESSARY?

"My business is very small. Do I really need to develop a plan like this?"

The best response to this question is, "Only if you want to stay in business and prosper."
Consider the following reasons for strategic planning.

- **Technology** and the fast pace of change are making business management more complex. Strategic planning will help you foresee and react quickly to market changes and opportunities and identify areas in which your business is lagging behind.
- **Competition** is becoming tougher. In most cases, small businesses find themselves competing with much larger companies -- ones that know the benefits of strategic planning and practice it.
- From a defensive standpoint, it is important that you apply the same **concepts** to your operation.
- Good financial control alone is not enough to ensure your business's success. In addition to a budget, you need **long-term goals** to determine the future direction of your company.
- You can use strategic planning to involve employees in all areas of your business, so they **share your goals**.
- You can use your plan to **communicate** with bankers, who often do not understand the nature of your business. Bankers must be convinced that your company is in control of its future before they will lay their money on the line. A comprehensive plan aimed at sustained growth in sales and earnings can be very convincing.
- A plan is also very helpful in **dealing** with your suppliers, advertisers, attorney, accountant, auditor, investors and business consultants.

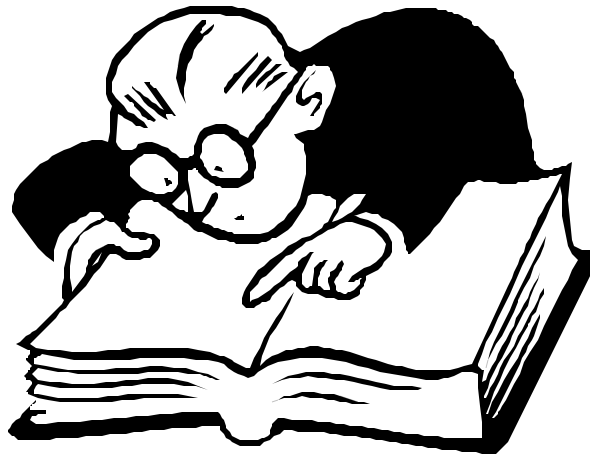


ANALYZE THE BUSINESS ENVIRONMENT

The strategic planning process begins with an assessment of the current economic situation. First, examine factors outside of the company that can affect your company's performance. In most cases, it makes sense to focus on the national, local or regional, and industry economic forecasts. This part of the analysis should begin early, at least a quarter or so before you begin the formal planning process. Use the following common sources for information:

- The *Wall Street Journal*.
- The *New York Times*.
- *Business Week*.
- Industry periodicals.
- U.S. Department of Commerce (especially for the 12 leading economic indicators).
- Federal Reserve banks.
- Local industry associates.
- Local chambers of commerce.
- The Internet
- The public library

After you have collected sufficient data, assess its present and future impact on your business. For example, slow housing starts, weak automobile sales, reduction in real disposable personal income and increasing levels of unemployment signal reduced future demand for goods and services.



THE PLANNING SESSION

After preparing a concise written assessment of the economic environment, you are ready to meet with key people in your organization for a marathon planning session. Make sure that all key departments (e.g., sales, service, finance, processing, manufacturing, etc.) are represented to ensure that a realistic plan with a common goal is developed.

The meeting will be most effective in a comfortable place that is free of interruptions and distractions. Often it is best to get away from the business premises. For many businesses the process takes two full days, so you may want to accomplish it over a weekend.

The sessions will function best if they are structured. The following is a proven technique:

- Appoint someone to be the facilitator of the group. It should be someone impartial and not so locked into his or her own ideas that he or she cannot see the potential merit in others' ideas.
- Agree in advance that creativity is desirable, so no idea brought up at the session will be immediately discarded as impractical or undesirable. (Sometimes impractical or impossible suggestions can spark other extremely positive ideas).
- Appoint someone to write down the essence of what the group discusses and decides.
- Equip the room with a flip chart, felt tip markers, and masking tape or thumb tacks.
- Follow an agenda. See Appendix A.

After the opening comments, a review of the session's procedures and a report on the economic environment, you are ready to begin the most important part of the process.



Analysis of Strengths, Weaknesses, Opportunities and Threats (SWOTs)

Here the facilitator divides a flip chart page into two sections and labels one half Strengths and Weaknesses and the other half Opportunities and Threats (together known as SWOTs).

Each SWOT is to be written concisely on the flip chart. Everyone is asked to identify SWOTs, starting with one person and proceeding around the room in a clockwise fashion. This technique elicits a response from each participant and rapidly creates a charged atmosphere.

Examples of Strengths, Weaknesses, Opportunities and Threats that might be suggested by participants during the SWOT analysis: (See Appendix B.)

Strengths:

- Over half of the residents in our marketing territory are affluent.
- Our company is well known.
- We were first in the area to institute telemarketing.
- Suppliers give us excellent service.
- Our financial position and credit rating are good.
- We have strong salespeople at the top of our organization.



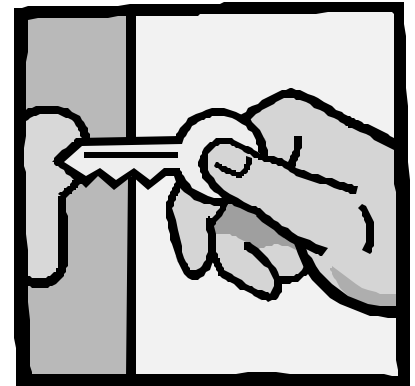
Weaknesses:

- Recession, business slowdown.
- Telemarketing operation is generating an abundance of price-conscious customers who may leave us at the next price adjustment.
- The independent contractors we use are difficult to control from a reliability and quality standpoint.
- Salespeople often do not follow procedures.
- Lack of formal budget process results in expenses that could be avoided or delayed.



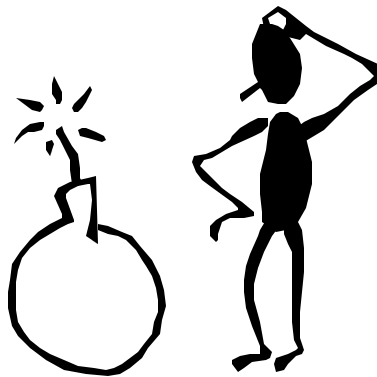
Opportunities:

- The adjacent town is over 50 percent affluent residents. Penetrating that market would stimulate significant sales growth.
- One of our suppliers has offered co-op advertising, including a billboard.
- Most of our customers use us for only part of what can do with our products and services; the potential for more sales within our existing customer base is high.
- Our competitor is aging and may be receptive to a buy-out if we offer an employment agreement until age 65.
- Implementing a program to include stuffers (showing our full range of products and services) in every mailing to our existing customers could generate cross sales.



Threats

- A new competitor started up its operation nearby 18 months ago and is cutting prices to attract market share.
- New competitor has lured away two of our employees with offers of better pay.



No one wants to feel foolish in front of the group, so people listen carefully to what is said and think hard about possible responses.

The facilitator should be certain that all SWOTs are recorded on the chart. As pages of the flip chart become full, tack them up around the room where everyone can see them. They will be used again.

When the facilitator has gone around the room several times and every conceivable SWOT has been identified, the group is ready for the next phase of the planning session.

Mission Statement

An organization's mission statement (usually no more than one or two sentences) describes the purpose of the organization. It enables all members of the organization to share the same view of the company's goals, philosophy and future direction. It should include the

- Reason the organization exists (management's mission).
- Products and services offered.
- Clientele served.
- Nature and location of the business's marketing territory.
- Areas of specialization.
- Future direction of the company.

Every organization needs a mission statement and many require one for each area of the company. By building your business plans around a well-conceived mission statement, your company can more effectively use its limited resources. Stated differently, the mission statement helps your company move beyond trying to do everything right toward doing the right thing. The facilitator should lead the group in establishing (or redefining) the company's mission statement in view of the external economic environment and the SWOTs discussed earlier.

Let's take a look at some sample mission statements:

- The Green Corporation of Maryland is dedicated to maintaining its position as a leader in providing quality insurance and financial service products to businesses and individuals through a staff of highly trained people sharing a tradition of integrity and service to its clients.
- Budget Car Leasing provides economical vacation travel and related services to customers in the greater New York area, who expect efficient, problem-free travel arrangements at a low cost.
- Our goal is simply stated. We want to be the best service organization in the world. -- IBM
- White Markets' goal is to be the lowest cost provider of quality foods and groceries in the University area, and eventually in the entire state.
- Wyatt Nurseries' goal is to provide a full range of high quality wholesale and retail nursery products to professional landscapers and discriminating homeowners.
- Smith Packaging Company's mission is to be the lowest cost producer of pork products in Delaware.

Key Results Areas (KRAs)

Most companies have from 8 to 15 key results areas (KRAs), areas in which the organization must achieve success to grow and prosper. The company's objectives and tactics can be grouped into these key areas, making it easier to process and prioritize objectives, allocate resources and coordinate with other areas.

The facilitator should lead the group in identifying KRAs for the business. Many of the KRAs (increase revenues, improve financial condition, etc.) are developed from the SWOTs. Some examples of KRAs are:

- Increase revenues.
- Improve financial condition (profitability, liquidity, solvency, credit / collections policies, etc.).
- Keep pace with or outdistance the competition.
- Improve efficiency and productivity.
- Achieve and maintain superior customer service.
- Capitalize on emerging trends.
- Increase utilization of technology to improve operations.
- Improve labor relations, human resource development and training (personnel issues: salary administration, job descriptions, benefits, personnel manuals, etc.).
- Improve internal communications.
- Improve distributor and/or supplier relationships.
- Improve public relations, advertising, promotions, etc.
- Improve or enhance products and services.
- Capitalize on the physical facilities (location, capacity, layout, parking, etc.).
- Improve or enhance insurance coverage.
- Capitalize on or improve organizational structure.
- Arrange for the orderly retirement and transfer of ownership and control of senior owners to junior owners or potential owners.

Strategic Objectives

Usually there will be one or two strategic objectives for each KRA, but occasionally there are more. Strategic objectives describe conditions the organization wishes to achieve. As with all objectives, it is important to make them as quantifiable as possible. Two examples of strategic objectives follow:

Example #1

Key Results Area: Increase revenues.

Strategic objectives: Increase revenues from new customers, expand sales to existing customers, acquire other related businesses, open new branches, market new products or services and achieve levels of investment income and inflation to achieve.

\$_____ in revenues by Dec. 31, _____

\$_____ in revenues by Dec. 31, _____

\$_____ in revenues by Dec. 31, _____

\$_____ in revenues by Dec. 31, _____

\$_____ in revenues by Dec. 31, _____

Example #2

Key Results Area: Improve financial condition.

Strategic objectives: Establish and maintain a financial condition sufficient to support planned growth through liquidity, solvency and profitability for the four years listed, as follows:

	20____	20____	20____	20____
<i>Liquidity</i>				
Achieve a working capital position of	\$	\$	\$	\$
<i>Solvency</i>				
Achieve net worth of	\$	\$	\$	\$
<i>Profitability</i>				
Achieve pretax profit margin of	\$	\$	\$	\$

Tactical Objectives

Establish tactical objectives to support each strategic objective. Tactical objectives are specific, usually short-term, objectives, aimed at supporting the strategic objective. Eventually you will prioritize these tactical objectives, sign responsibilities and agree to target dates for completion.

One easy way to develop tactical objectives is to return to the ideas from the SWOT analysis. Group each idea into one of the key results areas. For example, say 12 SWOTs were identified that could either positively or negatively affect KRA #1, Increase Revenues. Use those SWOTs to develop tactics for the increase revenues strategy. Capitalize on areas identified as strengths and opportunities and try to reduce or eliminate weaknesses and threats.

If your strategic objective is to expand sales to existing customers, some tactical objectives might be to

- Produce and market a new product (take advantage of an opportunity).
- Develop and market a new service (take advantage of an opportunity).
- Identify a specific product or service you have been successful with and develop a plan to promote that product or service to every customer who doesn't yet have it (capitalize on a strength).
- Retain strong sales staff or replace weak sales staff (correct a weakness).
- Revise traffic flows of store or change displays, signs, etc. (correct a weakness or capitalize on a strength).
- Change marketing or advertising theme (take advantage of an opportunity).
- Establish a sales campaign with meaningful incentives (take advantage of an opportunity).
- Change salary program for salespeople from fixed to variable salary based on sales (correct a weakness).

After you have categorized and established tactics to address each SWOT, proceed with the next phase of the process.

Budgeting and the Strategic Plan

The strategies and tactics that you choose will affect revenues and expenses to differing degrees. You need to consider the potential impact of each objective on both revenues and expenses so that you can prioritize them and reflect them in future budgets.

Target Dates

Be realistic in setting target dates. It is important that you resist the temptation to set extremely ambitious target dates for your objectives. In most cases, the tactics you have agreed on will be accomplished by people who already have a full day's work. Each employee must be given sufficient time to achieve the specific objectives assigned to him or her, or the plan will quickly be viewed as impossible to accomplish and useless.

When assigning a tactical objective, let the recipient tell the group how long it will take to achieve, and accept that target date, if at all possible. Appendix C displays a suggested format for the strategic plan.

Coordinating and Monitoring the Strategic Plan

For maximum sustained results, an overall coordinator for the strategic plan should be appointed. That person is responsible for bringing together the various pieces of the business plan into one comprehensive plan and for monitoring the plan.

The form in Appendix D can be used to display the strategic objectives and all the supporting tactical objectives for each key strategy area. It also lists the person responsible and the agreed-upon target date for each objective, with a section for comments. An example of how the completed form might look is shown in Appendix D1.

Appendix E is an Individual Objective Summary/Status Report, which enables an individual to track the status of each objective for which he or she is responsible and report monthly to the strategic plan coordinator.

The monitoring process should be made as simple as possible. Each month, the strategic plan coordinator collects the updated individual objective summary/status reports from employees and makes certain that all objectives in the plan have been accounted for. He or she makes note of shortfalls, needs for reforecasts or meetings to be called, and documents progress in a brief memorandum to all strategic plan participants. For example:

- At the end of April, we are on target or ahead of plan in all but two tactical objectives. The attached individual objective summary/status reports describe the status of every objective.
- Where a shortfall exists, I have highlighted the shortfall and noted the actions being taken.
- Overall we are well on our way to achieving our major objectives.

COMPLETING AND COMMUNICATING THE PLAN

When the above procedures have been discussed with the group, agreement should be reached on when the written strategic plan should be completed and ready for use. The method of communicating the content of the plan to all employees should also be discussed.

WHY STRATEGIC PLANS FAIL

No treatment of this subject would be complete without mention of the fact that some strategic plans fail. The major reasons are

- Strategy was defined incorrectly.
- The plans lacked detailed implementation steps with tasks, schedules and responsibilities.
- Goals were not stated in clear and quantifiable terms.
- Planning did not involve input of key managers.

The process outlined in this guide avoids these pitfalls and has proven effective with small businesses.

Getting Help

Building a Work Force

As your business grows there will be a need to build the organization. Some find it easier to turn to relatives or friends for help without considering their work experience and knowledge. This can be a mistake. Carefully consider the requirements of the job and the qualifications of each candidate before hiring the person. Also consider honesty, reliability, education, personality and communication skills.

Professional Help

One does not have to hire full-time professional help to get certain expertise, such as that of a lawyer, banker or accountant. SCORE counselors are also available for business advice. Service Corps of Retired Executives (SCORE), a national organization sponsored by SBA of volunteer business executives who provide free counseling, workshops and seminars to prospective and existing small business people. Using these resources may make it easier for you to plan and execute your goals.

Essential Management Practices

The following are practices that are essential for a successful business.

- Have a written business plan that sets the objectives you want to achieve in the next year and the next five years.
- Analyze progress with hard numbers.
- Know your break-even point and when you are on target in reaching it.
- Have your accountant/bookkeeper prepare and thoroughly explain financial reports, such as profit and loss statements, balance sheets and cash flow sheets, in addition to those related to your tax returns.
- Even though your objective may not be to secure a loan, talk to your banker about your business. Know your numbers.
- Know exactly how much it costs you to make a sale, perform a service, make a repair, etc.
- Know how much inventory is on hand. Inventory is money. Old and obsolete inventory can paralyze your business.
- Solicit regular feedback from customers and make changes based on their suggestions.
- Join a trade association for your industry.
- Read the same publications that your competitors and customers read.
- Constantly scrutinize your competitors' advertisements and read their sales literature.
- Ask yourself the following about your competition: Is their business increasing or decreasing? How do you compare as far as quality, price, product line, exclusivity, service, reliability, location, warranties, delivery and courtesy are concerned?
- Talk regularly about business-related subjects with other small business owners.
- Review financial and marketing strategies often.
- Have regular training sessions for and regular motivation meetings with your employees.
- Recognize your own weaknesses and get help in these areas.
- Review the business plan monthly.
- Tell everyone on the payroll exactly what his or her responsibilities are and what is expected.
- Treat employees as individuals.
- When an employee does a good job, tell him or her.
- Keep as accurate a set of records as possible.
- Analyze your records often and take any appropriate steps that may be indicated.
- Take pride in your business.

Appendix A: STRATEGIC PLANNING SESSION AGENDA

Dates:

Location:

Facilitator:

Recorder:

Time	Topic	Responsibility
Day 1		
8:00- 8:05	Opening comments	President
8:05- 8:15	Review agenda Review procedures for session Review roles of facilitator and recorder	Facilitator
8:15- 8:30	Review completed analysis of external environment	Preparer of analysis
8:30-10:00	SWOT analysis - Part One Roundtable discussion to identify and document all of the company's strengths opportunities, weaknesses and threats (SWOTs)	Facilitator & Group
10:00-10:15	Coffee break	
10:15-12:00	SWOT analysis Part Two Continue SWOT analysis	Facilitator & Group
12:00-12:45	Lunch	
12:45- 2:30	Develop or redefine mission statement for for organization (statement of purpose)	Facilitator & Group
2:30- 2:45	Coffee and soft drink break	
2:45- 3:30	Analysis and identification of key results areas (areas in which the company must achieve significant results in order to achieve the kind of revenues and profits desired)	Facilitator & Group
3:30- 5:00	Establish strategic objectives (objectives that are descriptive of a condition you want to achieve) within each key result area	Facilitator & Group
5:00- 6:30	Dinner	

Day 2

8:00- 8:05	Opening comments	President
8:15-10:00	Establish tactical objectives to address SWOTs Part One	Facilitator & Group
10:00-10:15	Coffee break	
10:15-12:00	Establish tactical objectives to address SWOTs Part Two	Facilitator & Group
12:00-12:45	Lunch	
12:45- 1:45	Integration of budgeting process into the strategic plan	Facilitator & group
1:45- 2:00	Coffee and soft drink break	
2:00- 4:00	Prioritizing objectives, assigning responsibilities and establishing target dates	Facilitator & Group
4:00- 4:30	Discussion of strategic plan coordination and monitoring. Includes discussion of strategic plan format and appointment of coordinator to monitor plan and keep everyone advised when shortfalls or reforecast situations arise	Facilitator & Group
4:30- 4:45	Arrange timing of written report and method of communicating the plan to all employees of the organization	Facilitator & Group
4:45- 5:00	Closing comments	President

Appendix B – SWOT Analysis

Example of Flip Chart Format for SWOT Analysis.

<u>Strengths</u>		<u>Weaknesses</u>	
1.		1.	
2.		2.	
3.		3.	
4.		4.	
5.		5.	
<u>Opportunities</u>		<u>Threats</u>	
1.		1.	
2.		2.	
3.		3.	
4.		4.	
5.		5.	

Appendix C – STRATEGIC PLAN FORMAT

Cover

Table of contents

Mission statement

Summary of key results areas (strategies)

Objectives, responsibilities and targets

- ___ for (enter key results area #1)
- ___ for (enter key results area #2)
- ___ for (enter key results area #3)
- ___ for (enter key results area #4)
- ___ for (enter key results area #5)
- ___ for (enter key results area #6)
- ___ for (enter key results area #7)
- ___ for (enter key results area #8)
- ___ for (enter key results area #9)
- ___ for (enter key results area #10)
- ___ for (enter key results area #11)
- ___ for (enter key results area #12)

Individual objectives summaries/status reports

- ___ for (enter employee's name)
- ___ for (enter employee's name)
- ___ for (enter employee's name)
- ___ for (enter employee's name)
- ___ for (enter employee's name)
- ___ for (enter employee's name)
- ___ for (enter employee's name)
- ___ for (enter employee's name)

Appendix D – OBJECTIVES, RESPONSIBILITIES AND TARGETS

Key results area:

Strategy statement:

[illegible]

Appendix D1 - OBJECTIVES, RESPONSIBILITIES AND TARGETS (SAMPLE)

Key results area: Achieve and maintain superior customer service.

Strategy objective: Enhance customer service to distinguish our business from the competition and to generate repeat customers and referrals.

	<u>Tactical objectives</u>	<u>Responsibility</u>	<u>Target date</u>	<u>Status</u>
1.	Survey key customers to assess current level of service and determine their expectations regarding ideal service.	Alice Henley	1-31-01	
2.	Establish and staff toll-free (800) number for customer orders and questions.	Dorothy Norris	3-20-01	
3.	Establish well-understood customer service standards and guidelines.	Kathy Wilson	5-15-01	
4.	Change human resource programs to build staff that takes pride in customer satisfaction.	Derek Johnson	6-30-01	

Proposals to management due as follows:

- | | | |
|----------------------------------|-------------|---------|
| • Recruiting/hiring/orientation | Debra Hicks | 4-30-91 |
| • Ongoing training | Joan Erwin | 5-15-91 |
| • Performance appraisals/rewards | Fred Branch | 5-15-91 |

Appendix E – INDIVIDUAL OBJECTIVES

Summary/Status Report for (Employee Name)

<u>Tactical objectives</u>	<u>Responsibility</u>	<u>Target date</u>	<u>Status</u>