



A Tactical Approach to Business Planning

It's true that, "If you don't have a plan, you're part of someone else's plan." Realizing this, many small to medium sized professional services firms struggle to develop plans, but in the end aren't satisfied with the results of the planning process.

The problem is that traditional approaches to business planning have been designed for large companies that provide products in a market-driven environment. The following approach is more tactical than strategic and is appropriate for smaller companies that provide professional services in a business development-driven environment.

Market Size

In traditional, strategic, approaches much attention is given to establishing the size of the market. In this *tactical* approach it's sufficient to simply know that 1) the market is of sufficient size to provide enough potential revenue to prosper / grow and 2) if the market is growing, it can be easier to succeed.

Revenue Requirements

The goal of the Tactical Business Plan is to generate enough revenue to achieve a specific growth target.

A professional services company, whose business is based primarily on hourly billing, needs a specific amount of revenue each year to maintain its current size. This base revenue (or annual "burn rate") is the total of the billing rate of each employee, multiplied by the planned utilization (or billability) for each employee, times the number of available hours in the year minus vacation and holidays. Depending on the multipliers (the multiple of raw salary to billing rate) attainable, an office with 40 employees will probably need between \$4 and \$5 Million a year to maintain its current size.

[Generally, for planning purposes, recently graduated, less experienced employees should have higher planned billing rates (e.g., 90%) while more experienced employees who have management and / or business development responsibilities should have lower billability goals (e.g., 25% to 50%).]

Growth is the planned, *phased* addition to the base revenue as established above. In determining how much growth is possible, it's critical to consider the availability of potential employees, the amount of time and effort that it will take to hire and train new employees, and the amount of time that it will take to bring them from zero billability to some planned number. Most often these factors will place a greater limit on growth than sales.

(When considering the difficulties associated with rapid growth, it's often said, "That's a problem we'd like to have". However, the reality is that having the revenue without being able to deliver quality service which has an immediate and long-lasting impact on the firm's reputation and its ability to generate business in the future.)

Revenue Generation

Once it's decided the amount of revenue needed to 1) maintain current profitability and 2) grow (i.e., planned revenue), it's time to ask the next question, "Where is this revenue going to come from?"

First, it should be determined how much of the total revenue requirement will come from existing and / or booked work. The difference between this and the "Planned Revenue" is the "Additional Revenue" needed.

Additional Revenue can come from three sources: 1) existing clients, 2) new clients and 3) acquisitions. For the purpose of this paper, we'll not consider acquisitions.

In our tactical, rifle shot approach, the next question to ask is, "*Specifically*, which clients or prospective clients ("suspects" or "prospects") is this additional revenue going to come from?" At the tactical level it's important to name specific companies that are likely to have revenue potential.

The next question is, "What kind of 'hit rate' can we expect when we propose work to these prospects?" For example, if it's 30%, we'll need to plan to target a group of companies that have about three times the potential revenue we need.

In addition, it's *critical* to know not only how much revenue will be available from each prospective client, but also when the revenue will start and over what period it will fall. \$1 Million that starts in December of our planning year and lasts four years is very different that \$1 Million that starts in March and lasts four months. (Initially, this information probably isn't available. It's determined as the "suspect" is advanced to a "prospect" and then to a "qualified prospect" during the qualification phase of the business development process. The Tactical Business Plan is updated accordingly.)

Having targeted a specific group of prospects, the next task is to determine who the *specific* competitors are for each of the target client.

At this point, we should have a table that includes target prospects, potential revenue, the period over which the revenue falls (i.e., how much in each of our planning years?) and a list of specific competitors for each target suspect or prospect.

Once we know who our competitors are, we will ask: "For each opportunity, how, specifically, are we going to beat these competitors?" and "From the client's perspective, what are our real strengths over each competitor for each opportunity?"

While this information is important, we need to recognize that our process can't stop here. This information simply provides the basis on which our tactical plan is built. The most important, critical part of the plan is *execution*—that is, we now know how much revenue we need, who the target prospects are, and who our competitors are. The next, key step is *executing* the business development process. It's here that we begin to establish our real, sustainable competitive advantage, which is understanding our client's problems, from their perspective, better than our competitors do.

Planning, of course, is never finished. As new information is received through the business development process, the tactical plan must be updated and refined. Through planning we determine that our goals are achievable and decide how to achieve them. It's not the plan that's important; it's the process of developing the plan.

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