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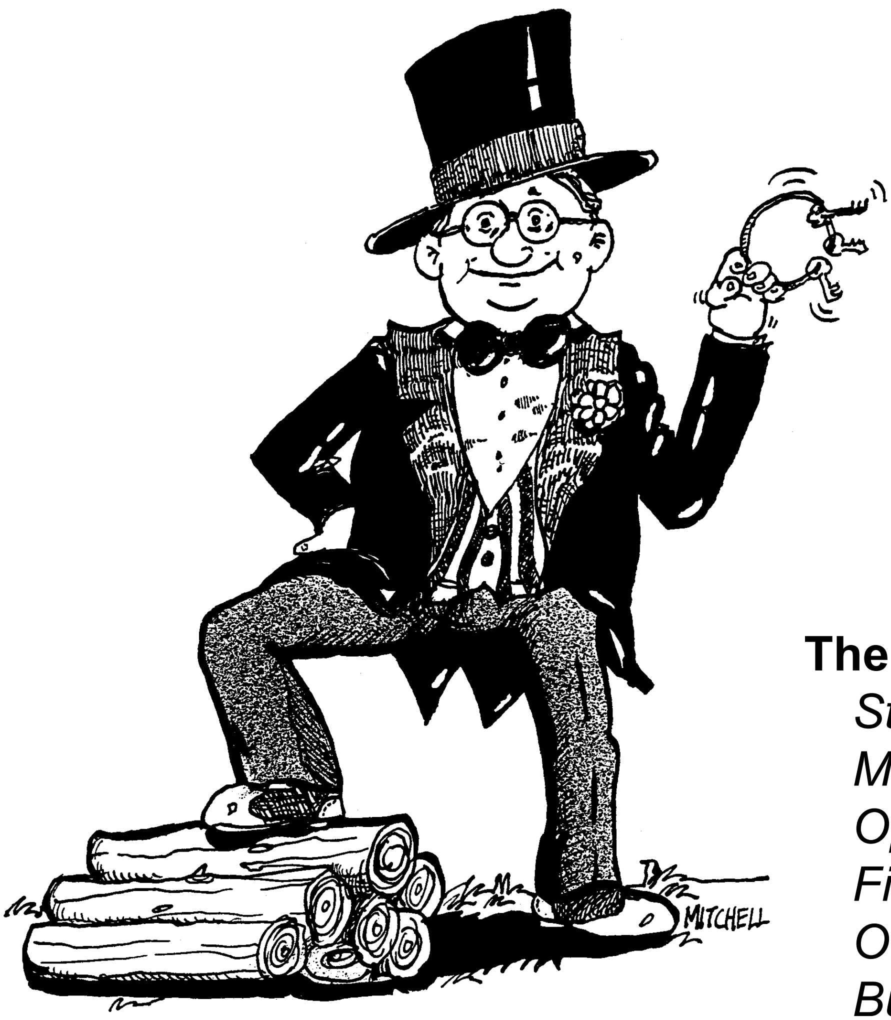
A Planning Guide for Small and Medium Size Wood Products Companies

Jeff Howe and Steve Bratkovich



The Keys to Success:

Strategic Plans
Marketing Plans
Operating Plans
Financial Plans
Organizational Plans
Business Plans

Second Edition

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Preface

The premise for writing this guide came from research studies in Maine and Minnesota that focused on success characteristics of small and medium size wood products companies. The first edition of the guide (1995) was a cooperative project between the USDA Forest Service, Northeastern Area State and Private Forestry; and the University of Minnesota, Department of Bio-based Products, Forest Products Management Development Institute.

Due to the popularity of the publication across the United States, and a request by users of the guide for an updated version, a second edition was written. This edition was cooperatively developed by the USDA Forest Service, State and Private Forestry, Northeastern Area, and Dovetail Partners Inc.—a nonprofit organization based in White Bear Lake, Minnesota.

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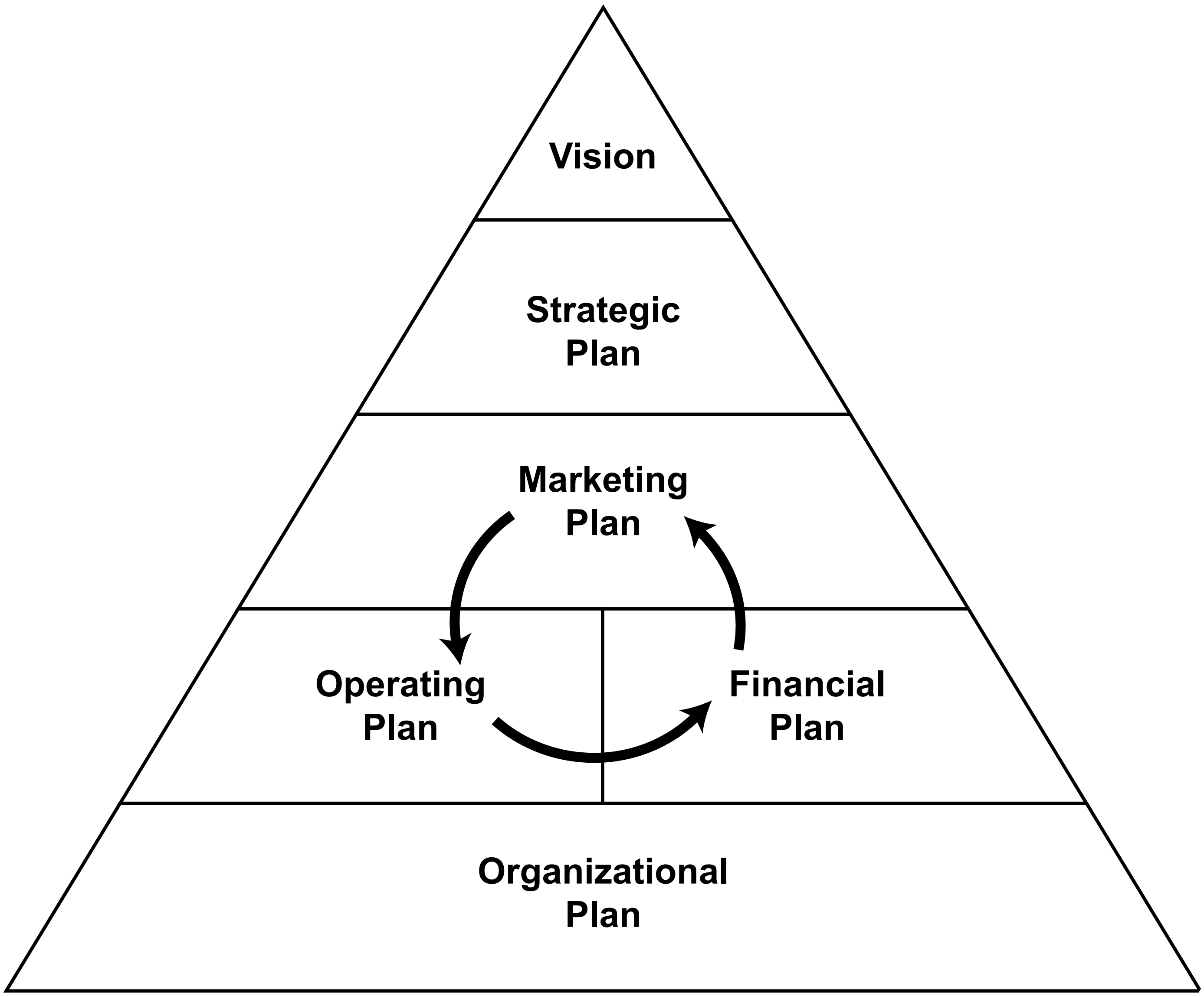
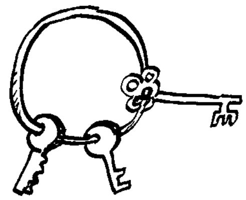


The Planning Pyramid

Part I.

Introduction



At the beginning of the 21st century, North American wood products companies are facing competitive pressure from numerous sources. Traditional products are being manufactured in new regions (e.g., China and the developing nations), and substitute products are being developed by competing industries (e.g., plastics and composites). The bottom line is strained by greater restriction of natural resources and the general rising cost of doing business. All of this pressure is stretching the abilities of the wood products manager to the limit. The times are changing, and they're changing quickly. So what can be done to improve the chances of success and maximize a firm's capabilities?

Research has shown that a **formal planning process** is a key to the success of manufacturing companies, especially with regard to developing new products and new markets. Research on wood products companies in Maine and Minnesota demonstrated that wood products firms recognized as industry role models were significantly more likely to have a formal planning process than the industry as a whole (Howe and others 1995). Formal, written plans allow firms to create strategies and programs to implement their ideas, and help them to measure and control their results. Formal planning is not a guarantee of success, but it is a process that facilitates the bringing of skills and abilities to bear on the proper issue, at the proper time.

Research shows. . .
Excellent small- and medium-size wood products companies have formal written strategic and marketing plans!

Planning Pyramid

The planning pyramid shows the various planning elements that are relevant to a wood products company. At the apex of planning lies the company **vision**. Without vision, a company is like a person wandering in the dark, or as a friend once said, "If you don't know where you're going, any path will get you there."

A clear vision is supported by strategies that address the critical issues of the time. Is your company trying to grow, to maintain, to survive, or to combat foreign competition? Whatever your core issues, your strategies to address them (the sum of which constitute your **strategic plan**) are the key to rigorous plans.

In a marketing emphasis, sometimes called a customer focus, those key strategies go into a **marketing plan** that addresses the revenue needs of the organization. From this marketing plan an operational or **operating plan** can be developed that addresses raw material, human resource, and physical plant needs. These two plans, marketing and operating, are joined to create budgets, pro-forma balance sheets, and projected income statements, which together are the heart of your **financial plan**. Each of these three components also feed back on the other two to make a coordinated whole. In this way marketing doesn't grow beyond capacity, capacity doesn't grow beyond marketing, and both are linked to the organization's financial ability to support activities and drive profitability of the company.

Finally, all of these elements, from vision through a financial plan, rest on the ability of people in the organization to implement them, and this is driven by the **organizational plan**. Above all else, the people of an organization are what make it succeed.

Each of these plans may stand alone. For example, sometimes a bank simply needs to see your financial plan, because of their past experience with your organization. Alternately you may be trying to license a product from a new vendor, which will want to see your marketing plan to gain a better understanding of what the demand for their materials will be. However, it is equally likely that you will need to share either all the plans, or a core segment of each plan that addresses a specific activity (e.g., you might need to provide the marketing, operating, and financial impacts of an equipment purchase). In either situation these are referred to as the **business plan**. Both banks and investors generally require business plans before they proceed with any financing. Therefore, in the process of combining all the components it must be remembered that the business plan is aimed at an external audience, and care must be taken to anticipate their unique needs.

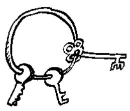
About This Guide

We have written this guide to provide you, the manager of a small or medium size wood products company, with a tool to make your planning process a little simpler, quicker, and more complete. We can't tell you how to run your business. You undoubtedly already have the knowledge, training, and experience needed to direct and lead your firm to a successful and profitable future. In this guide we provide a framework for organizing your thoughts, mobilizing skills, and formalizing plans so that your ability to implement, measure, and control your business activities is maximized.

We have attempted to make this guide as straightforward, complete, and user friendly as possible. To that end we have tried to eliminate jargon or "techno-speak" wherever possible. Because there is always some terminology that is new to some people, or used in a new way, we have briefly discussed or defined certain terms within the context of this guide.

This guide highlights distinct planning activities and **each chapter can be used independently from the rest of the guide**. The decision on how to use this guide will depend on your particular situation, needs, expertise, and time frame.

We ask readers to consider this guide and their plans as dynamic works—never perfect and never complete. Your plans need not be set in stone, but your goals should not be adjusted to meet your achievements. Use your plans to set your sights high, and to manage your activities to meet those objectives. Remember, successful management requires analysis, planning, implementation, and control. Formal plans are the **keys to success**.



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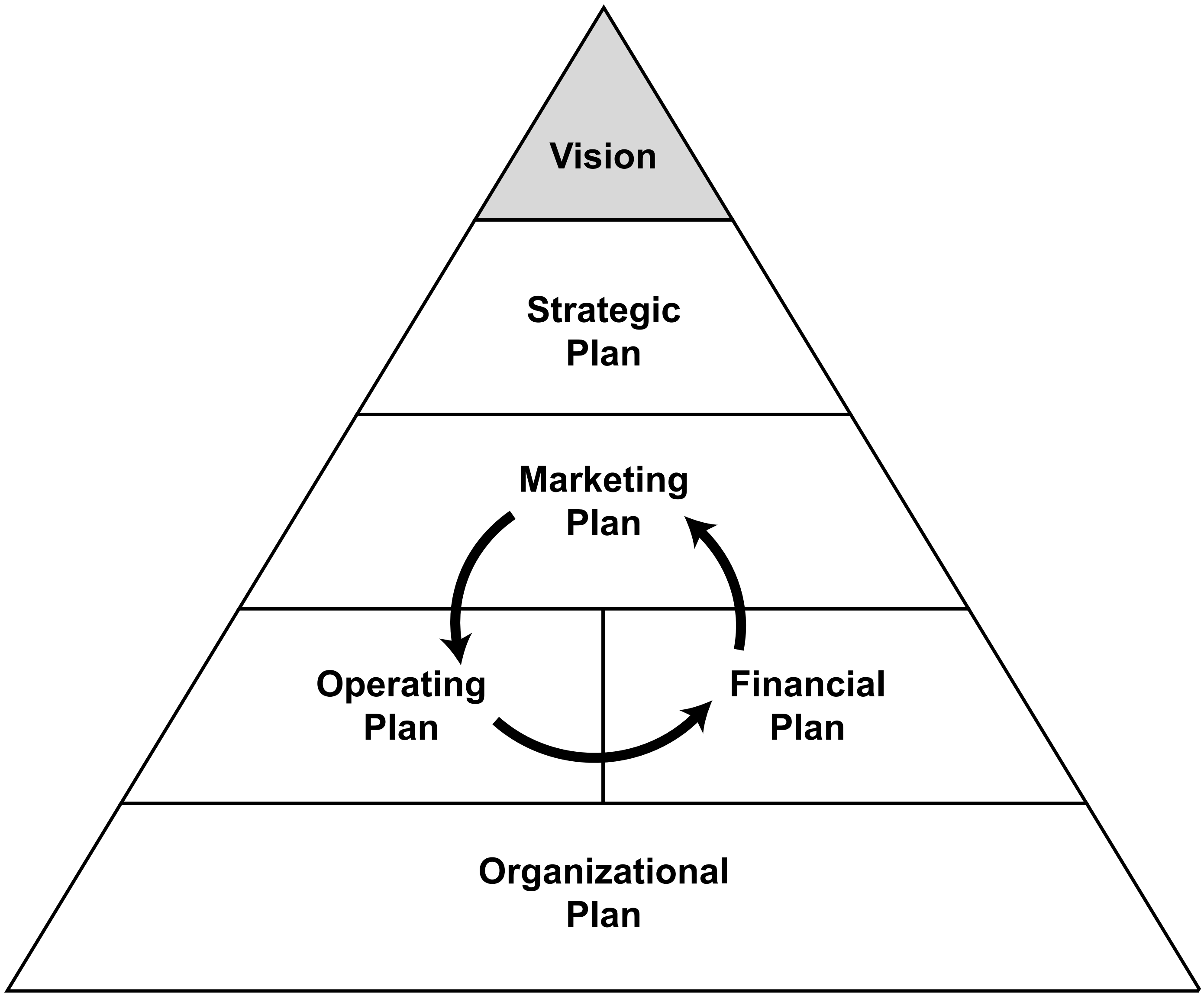
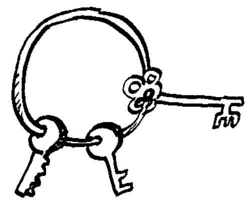


The Planning Pyramid

Part II.

Vision

(Where are we going?)



In May 1961 President John F. Kennedy delivered a stirring speech that set the agenda for the U.S. space program. He surprised the nation by declaring that by the end of the decade the United States would " … send a man to the moon and return him safely to earth." With this one simple phrase, JFK provided the "vision" for NASA for the 1960s.

All organizations, whether public or private, large or small, young or old, should articulate a **vision** for their future desired state. The vision statement should announce where you want to go—to the moon for example!—or paint a broad picture of what you want your company to become. The vision statement is a compass bearing for the direction in which you are headed.

Vision statements do not need to be lengthy—a phrase or two is sufficient. A written vision statement helps everyone in the firm identify if what they are doing is furthering the vision of the company. Even a company with only three employees cannot afford to have them operate in a vacuum with no idea where the organization is going. Day-to-day supervision is not enough.

Vision statements should include this information:

- What the organization wants to be, not what it is
- Concepts for future products or services, not specific products and services
- A future market area, such as global or international
- Messages that are understood from top management to line workers, including the public, customers, and suppliers.

The leaders of an organization typically develop vision statements, often with input from stakeholders. Leadership is responsible for creating a vision that puts into words a view of a realistic, credible, attractive future for the organization—a condition that is better in some important ways than what currently exists.

If a company has become unprofitable or only marginally profitable, it may have lost its focus—its vision. To be successful, every company should have a defined vision for its existence.

> Example Vision Statement from a wood component manufacturer…
>
> *To be the premier wood component manufacturer in the Nation by exceeding industry standards through innovation and team member excellence, ensuring the satisfaction of our customers, suppliers, and shareholders.*

Importance of Making Clear Choices

When creating a vision you are, or need to be, making several major decisions. These decisions can generally be grouped based on the following considerations:

- What phase of life is your organization in?
- What phase of life are your products or services in?
- What is your core approach to doing business?

What Phase of Life Is Your Organization In?

Every organization has many similarities to an individual, meaning it has a youthful startup phase, a period of consolidation and maturation, and then the phase where growth and diversification are reborn. Sometimes these phases are described as "forming," "norming," and "storming." George Land and Beth Jarmin in their book *Break-Point and Beyond* (1992) describe these phases in great detail. They suggest that the transition between these phases can be very stressful, generating what are called crisis or "break-points" in an organization.

It is important to know where your organization is in this process. Is it still in the early (forming) phase, when entrepreneurship and risk-taking are critical? Or is your organization getting increased pressure for standardization, consistency, and lower prices (norming)? Lastly, is your company starting to diversify, to increase employee empowerment, and to seek profitability through wide specialization (storming) rather than commodity production? It is extremely important to recognize that each of these phases (forming, norming, and storming) requires a different approach to leadership. Risk-taking entrepreneurs are not generally good at managing issues like consistency, repeatability, and reliability. At the same time, leaders who are experts at these three skills are often uncomfortable with the sharing of power, loss of control, and creativity necessary to move to the specialization and diversification of the storming phase.

What Phase of Life Are Your Products or Services in?

The most common discussion on this topic generally revolves around the "Product Life Cycle" graph (figure 1).

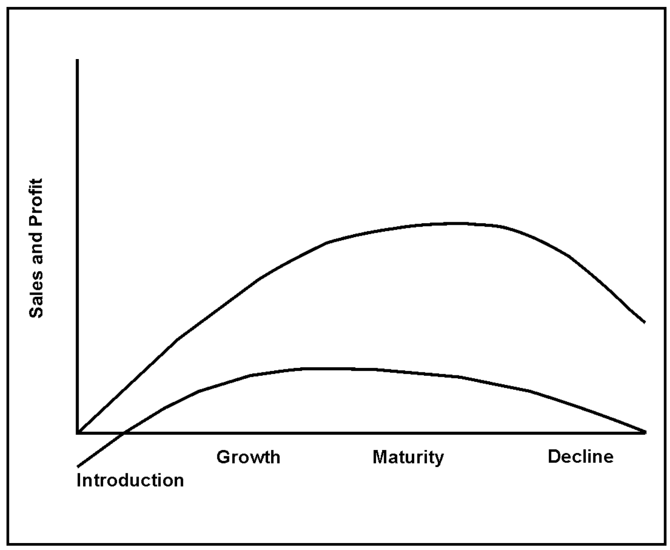


Figure 1. Product Life Cycle curve.

This graph is discussed in detail in every introductory marketing book, so we won't spend much time on it here. It is important to recognize that each product goes through a series of phases in the marketplace from *introduction*, with little or no profit, to *growth* with high profitability, to *maturity* with its higher volume but generally lower profitability per unit (or percentage), and finally to the *decline* phase with increasing competitiveness, and smaller margins.

The key is to recognize where your product(s) are on this graph, and to do everything in your power to keep all your products from ending up in the decline phase. With appropriate strategies it is possible to regenerate growth in a product or service that has entered the mature or decline phase. Alternately, the judicious introduction of new products prevents having all your products in any one phase. Both these approaches assume you know which phase your product or service is in and that you are creating strategies to optimize company performance based on that knowledge.

What Is Your Core Approach to Doing Business?

Research has shown that businesses generally separate themselves, and compete, in three areas: price, innovation, and customer service (Porter's Model). For example, these three core approaches can be summarized in the following way:

- Price—strive to become the lowest cost producer, (example: most framing lumber producers)
- Innovation—invest in creative processes, technology and new product development, (example: 3M) and
- Customer service—focus on developing an intimate understanding of the customer and willing to do almost anything to make the customer happy, regardless of cost. (Example: Nordstrom, a department store famous for its employees running to other stores to get items their customers want but that Nordstrom doesn't carry).

Deciding your core approach is both among the most important decisions an organization can make and generally the most controversial in discussion, because in truth all of these traits are critical. However, you can evaluate the clarity of your vision based on your front line employee's ability to make independent decisions. If your core approach is clear, your front line employees know what to do in most situations.

Example: Suppose your shipping department is readying a cabinet that your organization manufactured, for shipment and discovers that the hinges on the doors are slightly different than those listed on the purchase order. What do they do? If they don't know and have to ask someone before taking action, then the vision of the company isn't clear. If you are a low cost producer then you ship it as long as it is functional and doesn't detract aesthetically (e.g., doesn't match); anything else would add to ultimate cost. If you are a customer service oriented organization you would hold the cabinet until either the correct hinges are installed or the customer "OK's" the use of the alternate ones; and you would express ship the product if necessary to be sure it still arrived on time (at no additional cost to the customer). An innovative business might send a video or picture of the cabinet to the customer automatically for their final approval, thus resolving the problem differently.

And, yes, customer service and innovative organizations must be cost-effective! And low-cost producers must still provide a high level of customer service! However, the key is the recognition that decisions are being made every day on everything from capital investment, to staffing, to product or service characteristics based on leadership's core choice of approach. The clearer the "core approach" is from a vision point of view the more consistent and effective the organization will be.

Mission

(We will be…)

A vision can be defined as a dream. However, when it is combined with a mission it becomes a destination. The "mission" of an organization is intended to describe how to reach the vision.

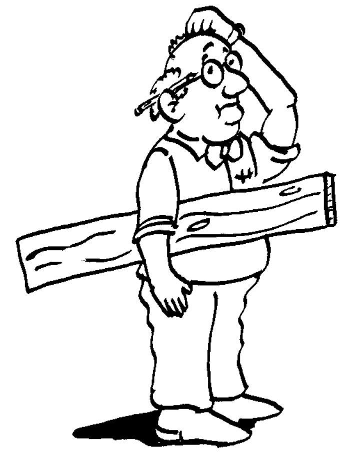
What Is Your Mission?

Simply stated, the mission is the basic purpose of your company. A well-developed mission statement can be a valuable management tool, providing future direction and a basis for decision making. A mission statement should ideally serve as a guide to what management wants your company to be. It should remind and motivate managers and employees to identify with the vision of your company. Consequently, all aspects of business operations should be focused on achievement of the mission. Mission statements should also fulfill an important public relations role by concisely communicating to stakeholders what your company is all about.

In developing a mission statement, your organization must establish its "scope" in at least three areas:

- First, who is to be served and satisfied by the organization? ("*Who are our customers*?")
- Second, what is to be satisfied? ("*What customer needs should we satisfy?*")
- Third, how are needs satisfied? ("*How can we most effectively satisfy customer needs*?")

Essentially, these three key questions can be rephrased as one: "What is our reason for being?"



"What is our reason for being?"

It is extremely important for your company to clearly define its "reason for being." For example, there is considerable contrast between a small firm specializing in custom-made furniture and a large-scale manufacturer of ready-to-assemble furniture. Both are wood products companies and both produce furniture, but each is very different in its reason for being.

What Does a Mission Statement Look Like?

The example mission statements in this section were adapted from Buechler (1993).

A mission statement should tell who, what and how. Consider the following mission statement:

> *East Brady Woodworks Company is committed to excellence in the manufacture of solid wood components primarily for the kitchen and bath cabinet industry. Excellence means providing a consistently superior product—on quality, on quantity, on time. As we do this we serve the needs of our customers, our employees, our suppliers and our community.*

The “who” in this mission statement is the “kitchen and bath cabinet industry,” i.e., the customer. The “what” is the “consistently superior product” (solid wood components). The “how” is “on quality, on quantity, on time.” The who, what, and how establish the “scope” of the East Brady Woodworks Company.

The example for Kaylor Millwork Company also illustrates a company’s scope by focusing on the three areas of who, what, and how:

> *Our Mission, as a millwork and hardware specialist, is to continually strive for excellence by building and maintaining a team of professionally skilled and highly motivated employees who are responsible for providing quality products and services to our successful customers.*

Defining or clarifying your company’s mission, or both, can be a soul-searching, demanding, and time-consuming process. Different individuals may have conflicting views of what the company is about and should be about. Different people in the company should be asked to describe the who, what, and how individually at first, and then as a group. After the group discussion, an individual should be assigned to develop a draft mission statement.

Though the process of defining your firm’s mission may seem like a lofty exercise for a small- or medium-size company, it is not meant to be simply window dressing. The process of individuals wrestling with the mission statement is as important as the statement itself.

Values

(We believe in…)

The following discussion on values was adapted from Goodstein and others (1993).

All business decisions are based on values. Consequently, each mission statement should be supported by a “set of values” or guiding principles that set the performance standards and direct the implementation of the mission. A company’s values are really a vision for how a company should “behave.”

A value can be defined as a conception of what is good or desirable, and values guide action. Many companies—perhaps even your firm—are not clear about their values. This lack of clarity can cause problems that could be largely avoided through a widely agreed-upon set of underlying values. Without clarifying values, it’s difficult or impossible to develop, say, a usable strategic plan.

A big part in identifying and clarifying values is an examination of the personal values of the firm’s leaders and managers. It’s important for the key decisionmakers in your company to be clear about their personal values and to recognize those values that differ among them. For example, an individual who values risk taking will view a company’s future quite differently from a person who holds security as a high personal need. Leaders and managers with differing values should talk to each other and attempt to resolve the differences.

Once individual values have been worked through, the desired values of your company must be considered. Profit versus growth, being a good corporate citizen, and being seen as a value-added company or a good place to work are examples of options to discuss. The important issue to address is what values leadership and management want your company to operate under in the future. As an example, these values may focus on performance (“excellence”), people (“employee pride and enthusiasm”), and process (“teamwork throughout the organization”).

A company's values are often organized into a set of guiding or operating principles. For example, the Mars Corporation (candy manufacturer) operates on the following five principles:

1. *Quality…The consumer is our boss, quality is our work, and value for money is our goal.*

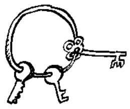
2. *Responsibility…As individuals, we demand total responsibility from ourselves; as associates, we support the responsibilities of others.*

3. *Mutuality…A mutual benefit is a shared benefit; a shared benefit will endure.*

4. *Efficiency…We use resources to the fullest, waste nothing, and do only what we can do best.*

5. *Freedom…We need freedom to shape our future; we need profit to remain free.*

The key message here is that a firm's values must be in harmony with the firm's mission.



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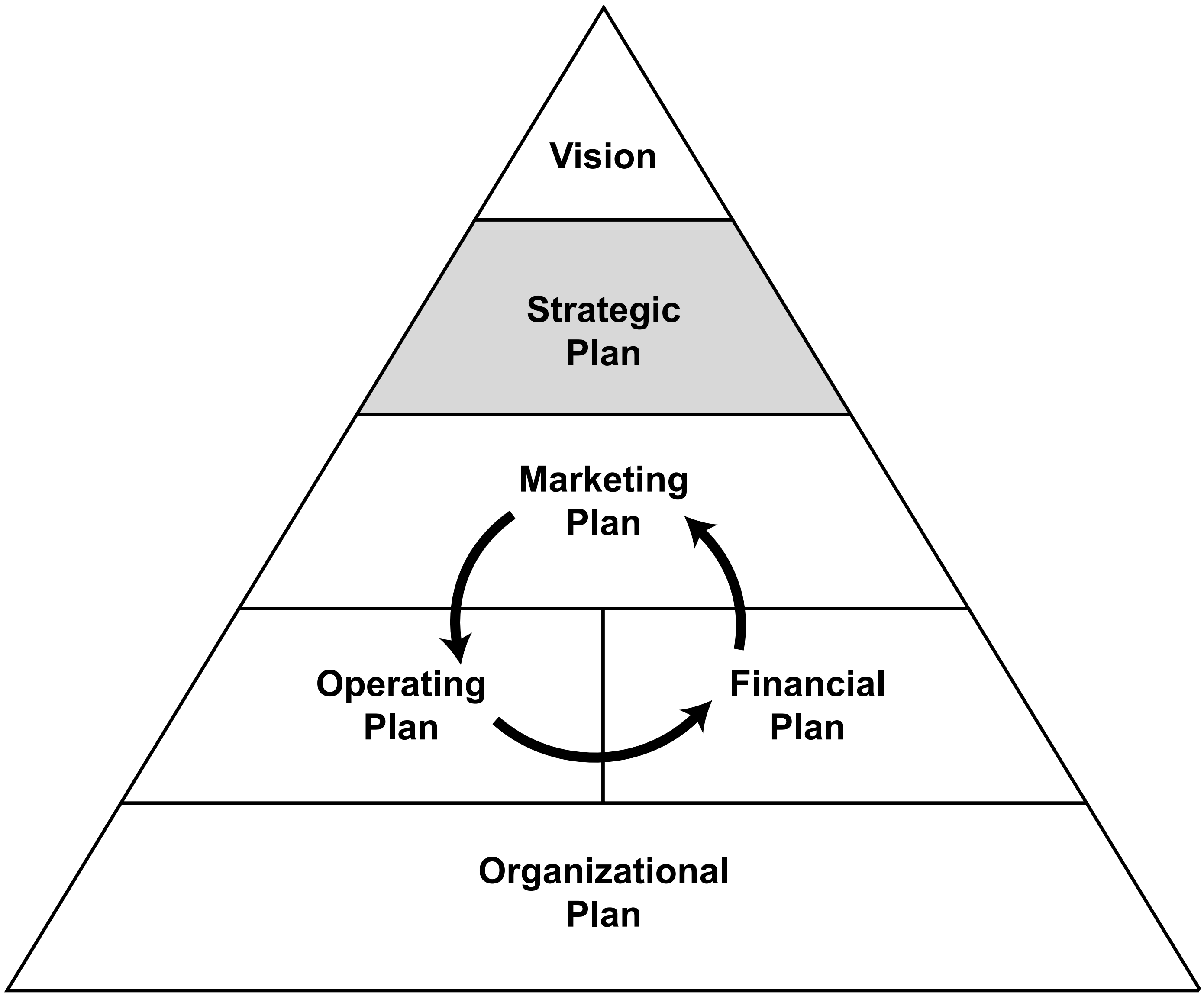
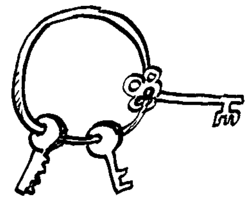


The Planning Pyramid

Part III.

Creating a Strategic Plan

(How will we get there?)



Once a company has answered the questions about vision (*Where are we going?*) and values (*How will we behave?*) the next step is to identify the broad methodology by which the mission is accomplished (*How will we get there?*). Successful strategic planning involves making difficult choices, setting broad priorities, envisioning the firm's future, and developing procedures to achieve that future. The timeframe is long-term, 5-10 years or longer in some cases. Strategic planning is the responsibility of your firm's top management.

What is Strategic Planning?

Much of this section was adapted from Bengston (1991).

It is important to recognize the difference between modern strategic planning and traditional long-range planning.

Long-range planning focuses on **predicting** rather than on **creating** the future as strategic planning does.

Why Is Strategic Planning Needed?

Uncertainty, complexity, and change characterize the external environment in which businesses operate. Managers need to respond quickly and effectively to changing circumstances. Strategic planning helps to define an overall sense of direction and purpose for a firm, and thereby helps managers respond to change.

Strategic Planning	Long-Range Planning
Focuses on identifying, managing, and resolving issues;	Focuses on achieving specific objectives of firm;
Emphasizes assessment of the environment outside and inside the firm; and	Emphasizes management of the internal environment—the human, financial, and physical resources expected to be available to firm; and
Is concerned with the vision of success of the firm and how to achieve it.	Tends to be based on historical projections and does not work well under changing external conditions.

Several potential advantages or benefits of strategic planning may be identified, including these:

Short−term benefits:

- Raising awareness about the external environment
- Improving dialogue on strategy among managers
- Improving dialogue between managers and professional staff
- Improving dialogue between the firm and its stakeholders
- Building a team and expertise in planning.

Long−term benefits:

- Providing direction and unity to the firm's efforts
- Improving the firm's performance
- Stimulating forward-thinking in the firm, especially among top managers.

The last point is perhaps the most important. Strategic planning is not an end in itself, but should help managers **think** and **act** strategically. Successful businesses have always been guided by strategic thought and action, and a strategic planning process can help your firm develop this perspective.

The Strategic Planning Process

The approach used for strategic planning should be adapted to suit the nature and circumstances of the particular business or organization. Strategic planning in a large corporation will differ in certain ways from strategic planning in a small firm, e.g., in the size of the planning team, resources devoted to the planning effort, and the amount of outside involvement. But the essence of strategic planning is a **process of thinking** that is largely independent of scale and is useful in all types of businesses.

This section provides a step−by−step approach to strategic planning that can be adapted to the needs of a particular wood products firm and implemented by current employees at reasonable cost and in a timely fashion. The planning process involves six steps:

Step 1. Initiating and agreeing on a strategic planning process

Step 2. Conducting a stakeholder analysis

Step 3. Assessing the external and internal environments

Step 4. Identifying strategic issues

Step 5. Developing strategies to manage strategic issues

Step 6. Writing, implementing, and monitoring the strategic plan.

If your firm has not yet developed a mission statement and identified values, go to Part II and complete them before beginning the strategic planning process.

Step 1. Initiating and Agreeing on a Strategic Planning Process

(In the beginning...)

The first step in strategic planning is to reach initial agreement about the nature, purpose, and process of strategic planning. A planning committee should be formed to address the following important questions:

- Who should be involved in the effort (individuals and organizations)?
- Who will be on the strategic planning team?
- Who will oversee the effort?
- What are the potential benefits to the firm of strategic planning?

- What resources are needed to proceed with the effort?
- What are the desired outcomes?
- What specific steps should be followed?
- What should be the form and timing of reports?

Key decisionmakers should be included on your strategic planning team, and perhaps some representatives of important external stakeholder groups (e.g., representatives from raw material suppliers, customers, trade associations). On the other hand, you may decide not to involve external stakeholders initially; outside involvement may complicate the process. Regardless, your planning team should include individuals who tend to be innovative and insightful in strategic thinking and decisionmaking.

The number of people directly involved in strategic planning will depend on the size of the company. In small firms, by necessity, the planning team may consist of a couple of individuals. In medium-size companies, two groups may be required to get the job done: a relatively large group to provide broad representation and legitimization of the planning process, and a smaller committee that does most of the actual work and makes recommendations to the larger group.

Step 2. Conducting a Stakeholder Analysis

(What do others think?)

Stakeholders are defined as individuals, groups, and organizations who will likely be impacted by or who will likely be interested in your company's strategic plan and planning process. Examples of stakeholders for a wood products industry could include employees, raw material suppliers (such as landowners, loggers, sawmillers, lumber brokers), customers, investors and lenders, debtors, interest groups (industry and trade

The planning team should welcome key decisionmakers.

associations, conservation groups), and other wood-using industries. Important employee groups should be explicitly identified as stakeholders.

A key to the success of any company is the satisfaction of key stakeholders. Any company that does not have a clear understanding of its stakeholders will have little chance of satisfying them. The stakeholder analysis can be structured around the following questions:

- Who are my company's stakeholders?
- What do they want from our company?
- What criteria do the stakeholders use to evaluate our company?
- How is the company performing against those criteria?

The first question about who stakeholders are can likely be answered through a brainstorming session of the strategic planning team. You may find it useful to rank the stakeholders according to their importance to the company.

The second and third questions about stakeholder wants and evaluation criteria can be approached in two ways. One way is for the planning team to make informed judgments about them. The second approach is to ask stakeholders, through interviews or surveys, what their wants and criteria are.

The first approach is much faster and avoids any problems with stakeholders not being completely honest. For example, a raw material supplier may be concerned primarily with the company's continued purchase of low–grade lumber at an above–average price, but would be unlikely to publicly make such a comment. A significant risk in not asking for input from stakeholders is that the planning team will incorrectly assume what the views of stakeholders are.

The fourth question to be answered in the stakeholder analysis concerns how well your company performs against the stakeholders' criteria. To get useful discussion on this question, it may be necessary to indicate whether your firm's performance is poor, average, or excellent relative to the different criteria (e.g., quality of final product, disposal or use of residues or both, customer relations).

The completed stakeholder analysis should serve as a starting point for discussion of exactly how the various stakeholders influence your company and who are the most important stakeholders.

Step 3. Assessing the External and Internal Environments

("What's up, Doc?")

This step is linked closely to the strength, weaknesses, opportunities, and threats (SWOT) analysis stage of developing a marketing plan in Part IV. Strategic planning deals with broader company-wide issues, whereas marketing addresses issues more specific to the product and market.

A major purpose of strategic planning is to identify external threats and opportunities that may demand a response in the near future. The idea is to prepare your company to respond effectively before a crisis develops or an opportunity is lost. Assessing trends in the external environment is therefore an important part of strategic planning. What are the recent issues and emerging trends affecting your company? These include environmental, technological, political, economic, and social trends and issues that may be local, national, or worldwide in scope. For example, reduced timber harvests from public forests in the western United States, boycotts of tropical timber products, or market share lost to foreign competition can all have direct impacts (both negative and positive) on wood products companies throughout the country.

Some large corporations use formal "scanning" procedures for assessing external environments. However, for small to medium size firms, elaborate and demanding procedures are generally less desirable

Check your business climate.

than simple and practical methods. Many companies rely on the knowledge of members of the strategic planning team and use group discussions to identify external threats and opportunities and assess their significance to the firm. Other approaches you might want to consider include organizing workshops or discussion groups involving stakeholders to identify major issues, or using various survey techniques.

The internal environment should also be assessed to identify strengths and weaknesses that help or hinder your company in carrying out its mission. Broad categories of internal strengths and weaknesses include these:

- Resources available to your company (such as technical and support personnel, equipment, facilities, computer resources, or ownership of forestland)
- Company structure (organization of the firm, decisionmaking, the chain of command, allocation of resources)
- Company performance (products and services and how these impact customers).

Using these categories, your planning team should develop a list of major internal strengths and weaknesses of the company. This list, along with a list of external opportunities and threats, should then be discussed and analyzed. Scanning and assessing the external and internal environments should be a continual activity so that relevant information is always available to your firm's key decisionmakers.

Step 4. Identifying Strategic Issues
(What's coming at us?)

The previous three steps of the strategic planning process led to the identification of strategic issues. A strategic issue is a fundamental policy choice facing your company. Strategic issues call for a reexamination of your company's vision, mission, values, and the kinds, level, and mix of products and services provided. Strategic issues usually arise in these situations:

- External events beyond the control of your company make or will make it difficult to accomplish objectives given the resources available.
- Choices for achieving company objectives change or are expected to change (e.g., changes in raw materials, technology, financing, management).
- New opportunities arise.

Examples of strategic issues that a wood products company might face include a dwindling supply of quality logs or lumber (raw material), substitution of nonwood products for traditional wood products (steel studs vs. 2x4s), increasing conflicts among groups that utilize forests, and a pending new discovery relating to wood residue utilization.

> *Research shows . . .*
> *Excellent wood products firms rank the availability of wood as a significant limit to their growth!*

The process of identifying strategic issues involves first reviewing your vision, mission, values, external threats and opportunities, and internal strengths and weaknesses. Then each member of your planning team should be asked to individually answer three questions for each issue:

1. What is the issue? (Describe in two or three sentences.)

2. What factors make the issue a fundamental policy question? (How does the issue affect values, mission, internal strengths, and weaknesses, etc.?)

3. What are the consequences of not addressing the issue? (If there are no consequences, it is not a strategic issue. If the company will be significantly affected by failure to address an issue or will miss an important opportunity, the issue is highly strategic and should receive high priority.)

Planning team members will need time to reflect on these questions, and at least a week should be devoted to individual identification of strategic issues.

The entire planning team then convenes and tentatively agrees on what the issues are. Each issue should be summarized on a single page, addressing each of the three questions posed to individuals. The last step in the process is prioritizing strategic issues to aid in developing strategies to deal with the issues.

Step 5. Developing Strategies to Manage Strategic Issues
(Should we do this or that?)

For each strategic issue that your planning team has identified, address the following five questions:

1. What are the practical alternatives your company might pursue to address a particular strategic issue?

2. What are the barriers to realization of these alternatives?

3. What specific actions might be pursued to achieve the alternatives directly or to overcome the barriers?
4. What actions must be taken within the next year?

5. What specific actions must be taken within the next 6 months, and who is responsible?

Research suggests that the following factors may impact choice of strategic issues:

- *Excellent wood products firms feel that the market value of their products is very important.*
- *They are continually improving both product quality and production efficiency.*
- *In some regions, excellent firms are very concerned about regulatory limits.*

The purpose of these questions is to clarify what has to be done and who has to do what to deal with each strategic issue. For example, suppose a strategic issue facing a wood products firm (posed as a question that the company can address) is this: How can we best recruit and retain highly talented and qualified employees? Practical ways to address this particular issue might include these alternatives:

- Anticipate shortages of trained personnel.
- Simplify hiring practices.
- Improve the system of rewards and incentives to increase retention of employees.
- Develop and maintain close ties with universities, colleges, and technical schools to identify potential employees for recruitment.

Using this last alternative as an example, potential barriers to realizing the alternative might include distance from universities, colleges, and technical schools, lack of knowledge of specific programs and degree offerings, and lack of an ongoing employee recruitment program.

Proposals to directly achieve the last alternative (develop and maintain close ties with universities, colleges, and technical schools) or to overcome the barriers might include these ideas:

- Develop a student internship program with a university, college, or technical school.
- Participate in student job fairs and related employment seeking activities.
- Become active in steering committees and other volunteer groups that deal with curriculum development, course offerings, and student recruitment.

The last questions for managing strategic issues involve identifying the specific actions that need to be undertaken and assigning responsibility for carrying them out to an individual or committee. However, your planning team may address only the question—identifying practical alternatives to deal with a strategic issue—and a key individual would then be assigned to follow up on one or more of the alternatives as part of the implementation of the strategic plan.

Step 6. Writing, Implementing, and Monitoring the Strategic Plan
(Here we go!)

Writing the Plan

The final written strategic plan, usually 10 to 15 pages, should be a summary of your planning team's efforts. The simplest form for a written strategic plan consists of the final versions of some of the parts completed by the planning team, such as these:

- Mission statement
- Company values (formal and informal)
- External opportunities and threats (factors that might affect the direction of future activities)
- Internal strengths and weaknesses
- Strategic issues facing the company
- Strategies to manage the strategic issues
- Plans for implementation of the strategic plan.

A key person in your firm should be selected to write the first draft of the strategic plan. The draft is then reviewed and modified by other members of your planning team, by key decisionmakers, and possibly by external stakeholders. After a final review by internal and external reviewers, including employees, the plan will be ready for formal adoption and implementation.

A key person prepares the first draft.

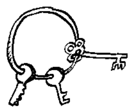
How Will Strategic Planning Affect Your Company?

The true test for any strategic planning process is the extent to which it affects the activities of the company and the behavior of employees. The purpose of strategic planning is to develop a better road map to guide the company. Unless this road map actually guides decisions and actions, the planning process is nothing more than an academic exercise. Implementation of the strategies developed, however, does not follow automatically. Change will be threatening to some and almost always arouses some resistance. Resistance to the implementation of strategies may take the form of procrastination, “paralysis-by-analysis” lack of implementation, or even outright opposition.

The role of top management in implementing your firm’s strategic plan cannot be overemphasized. The “boss” should be closely involved in the process from the outset and must be totally committed to the strategic plan and lead the support. All managers (or whatever you call them in your firm) need to be committed to the plan and use it to guide decisionmaking, particularly in developing annual objectives and budgets. Management must communicate the plan and its rationale to all employees, and employees must be intimately involved in the planning process, rather than being presented with a completed plan.

Periodic review and updating of your strategic plan and monitoring of its implementation are vital. Every 6 months review the specific steps to implement the plan. Every year review the strategies to deal with strategic issues should be reviewed and evaluate progress. And every 3 or 5 years the strategic planning team should review entire strategic plan and modify it as needed. Many companies review and update their strategic plans yearly, before planning and budgeting for the coming year.

Top management leads support!



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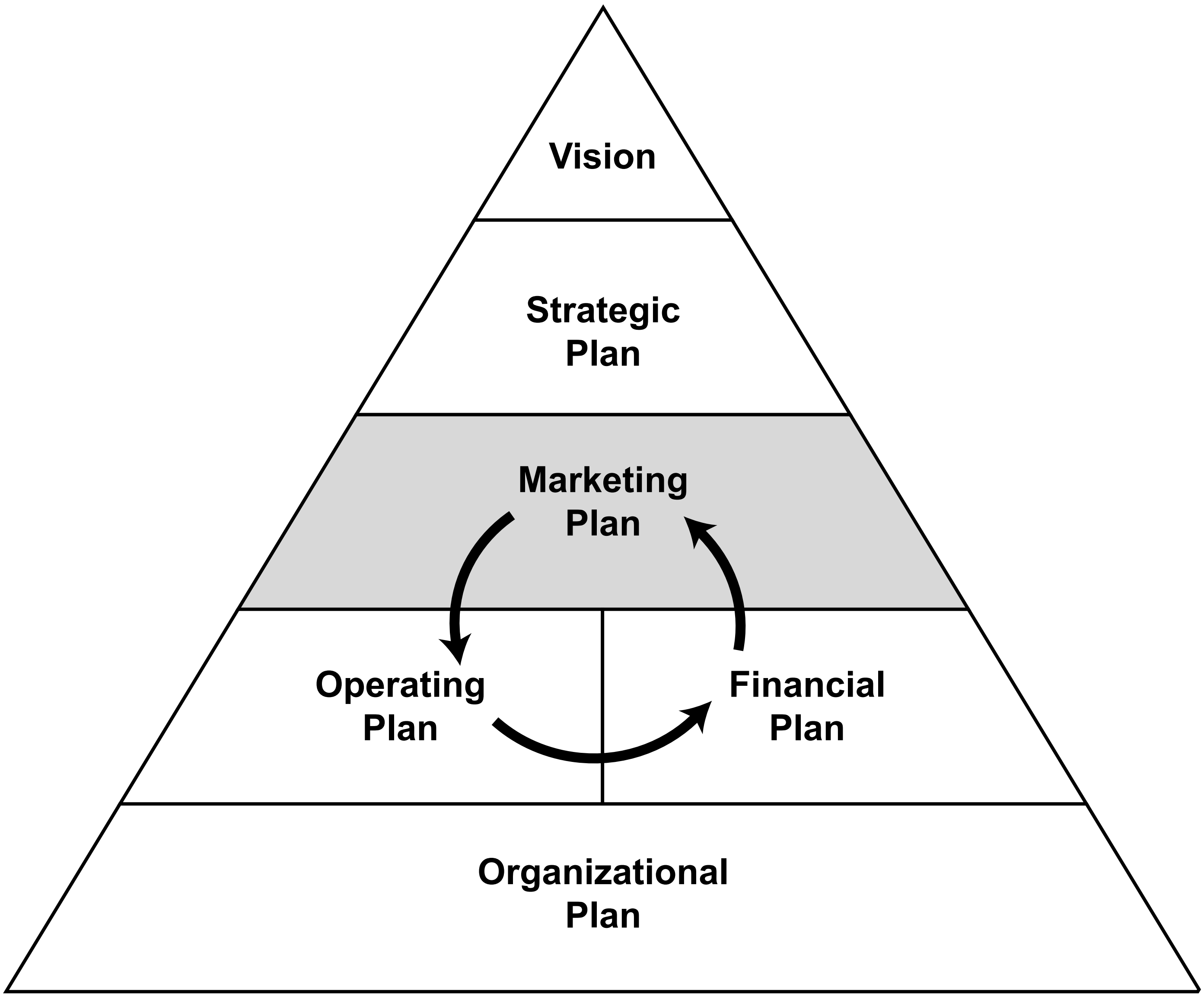
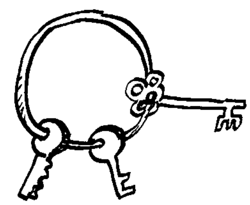


The Planning Pyramid

Part IV.

Creating a Marketing Plan

(Whom do we want to serve?)



What Is Marketing?

By one definition, marketing is simply "a social and managerial process by which individuals and groups obtain what they need and want through creating, offering and exchanging products of value with others" (Kotler 1991, p. 4).

A more academic approach suggests this: "Marketing consists of individual and organizational activities that facilitate and expedite satisfying exchange relationships in a dynamic environment through the creation, distribution, promotion, and pricing of goods, services, and ideas" (Pride and Ferrell 1991, p. 5).

Whichever definition you prefer, recognition of the customer as the focus of the company's activities is the first step to developing a marketing orientation.

What is a Marketing Orientation?

Having a marketing orientation means focusing **all** company activities on meeting the wants and needs of the customer. Excellent firms emphasize a marketing orientation as part of their corporate culture. This orientation recognizes the integrated nature of product design, development, quality control efforts, sales, after–sale service, and "marketing."

Why Is a Marketing Orientation Important?

Back in 1960, Harvard Professor Theodore Levitt wrote his famous article "Marketing Myopia" (Levitt 1960), in which he discussed how management's failure to define their product broadly enough can lead to a decline in revenues, or to susceptibility to competition from new industries and new entrants, or to both.

The railroad industry provides a classic demonstration of marketing myopia. (Myopia here means short sightedness). For years it was readily apparent that the primary role of the railroads was to transport both passengers and freight. Yet, as the need for passenger and freight transportation grew significantly throughout this century, railroads became less and less profitable! Although there were a number of factors involved, most of the problems arose because customer's needs began to be filled more satisfactorily by other means (for example, by cars, trucks, airplanes, and even telephones).

Railroads assumed themselves to be in the railroad business, rather than the transportation business. They were product–oriented, rather than customer–oriented. As a result, many railroad companies went out of business, and the industry lost its dominant position as a transporter of people and freight. However, since the early 1980s railroads have been redefining themselves by adding trucking services, freight forwarding service, and even air service. Railroads are regaining a customer focus, and have begun a process aimed at reestablishing lost markets.

Wood products firms are redefining themselves as well. For example, in response to the steel industry's aggressive marketing efforts to capture an increased share of the residential framing market, some wood products firms recognized that the steel industry has identified certain needs not currently being adequately met. One such need is for more dimensionally stable framing. Instead of simply arguing it out in the promotional literature, these firms have sought solutions in the products themselves. Finger-jointed materials, composite products such as I-joists, framing with a lower-than-normal moisture content, and environmentally certified wood are all new solutions developed to meet the changing needs and demands of customers. In this instance the manufacturers have redefined their business from "lumber" producers to the broader business of "wood products" manufacturers.

Changes affecting businesses do not have to be either subtle or sudden to take a firm by surprise. Consider the following quote made in reference to the increasing impact of large regional supermarkets: *" ... it's hard to believe that people will drive for miles to shop for foods and sacrifice the personal service ... to which Mrs. Consumer is accustomed."* (Zimmerman 1955, p. 48)

Does this statement sound familiar? Although this statement is very applicable today, it is actually from a grocery manager in the 1930s. Haven't we recently heard similar comments about the large home centers? The underlying trend has not changed, only the definition. The gist of all this is that a customer orientation is critical to your firm's longevity, and this is exactly what marketing is all about.

What is a Marketing Plan?

A marketing plan is a brief written report that summarizes the details of your firm's marketing activities for a given period in the future, usually the next year. It is the "central instrument for directing and coordinating the marketing effort" (Kotler 1991, p. 62). As such, it is the blueprint for the construction of your marketing programs.

The marketing plan directs marketing efforts.

The marketing plan differs from the strategic plan, in that it focuses more narrowly on a specific product, market, or both. It provides a detailed framework for the marketing process, including an entire set of specific activities to be performed to meet management's strategic goals and objectives. The marketing plan is limited in that it primarily deals with strategy as it relates to the company's marketing mix.

What Is My Company's "Marketing Mix"?

The marketing mix is the combination of **Product** attributes, **Pricing** strategies, **Promotional** strategies, and distribution methods (or **Places**) that are developed to best meet the needs of your customers and your firm. These factors are usually referred to as the **four P's** of marketing.

How Are Marketing Plans Developed?

Marketing plans are developed in two stages. The process can be subdivided into the following activities (Kotler 1991):

Stage 1. Gathering and analyzing information

- Step 1. Analyzing marketing opportunities
- Step 2. Evaluating markets
- Step 3. Designing marketing strategies
- Step 4. Planning marketing programs
- Step 5. Organizing, implementing, and controlling the marketing effort.

Stage 2. Developing the written marketing plan.

The importance of the first two steps in Stage 1 cannot be overemphasized! However, by analyzing opportunities and evaluating markets early in the planning process, your firm recognizes that it must be "market driven" rather than "product driven." This recognition is crucial to the success of a product. Too often wood products are brought to market for the wrong reasons, i.e., firm owners really "like wood," or they "like machining," or they simply have access to both wood and machines to make a product. A description of all of the steps follows.

> *Excellent firms place high importance on pre-product development activities.*

Stage 1. Gathering and Analyzing Information

Step 1. Analyzing Marketing Opportunities (What could we do?)

To some firms, analyzing their opportunities is the most difficult activity. The key to analyzing marketing opportunities often rests on the quality of your firm's marketing information system. Your ability to meet your customer's expectations is dictated by how well you research their wants and needs, their location(s), buying habits, inventory methods, and so on.

There are two common approaches to researching this information. One involves a review of written information, such as sales reports, old marketing research, up-to-date Internet searches, and library information including trade journals. The second approach involves personal interviews with customers and industry "experts." Usually firms are already using this latter approach via their sales staff. Sales personnel are often the eyes and ears of the company, but too often what they know is inaccessible to all but themselves.

The crucial part of analyzing marketing opportunities is formally **writing down** the relevant information and processing the information in a manner that facilitates its use by management and sales personnel alike. Good marketing opportunities can involve new services to existing customers, new products, or new markets (new customers)! A number of factors have a significant impact on the success rate of new products and new markets. Among these factors, three are key (Cooper 1991).

1. Select new products and markets that fit your firm's existing expertise.

Examples:

- Choose new **products** that have technological needs similar to existing capabilities (e.g., no special training is involved), have handling requirements concurrent with existing capabilities and experience, and require a similar company attitude. A manufacturer of pallet stock may want to take the intermediate step of making dimension parts, before leaping into cabinets or furniture manufacture, simply because of the dramatic change in company "style" that might be necessary to produce cabinets or furniture.
- Choose new **markets** that are similar to existing ones. Successful firms tend to have a specialty, whether it is supplying mobile home manufacturers, furniture manufacturers, retail yards or wholesale distributors. In marketing we call this your niche, and a niche is not necessarily small)! Evaluate the existing customers that you are most successful with, and then search out their counterparts in other areas or regions. Often the skills that made you successful with them, plus the experience you have gained in serving them well, makes your development of new, similar accounts much easier.

2. Look for products and markets that offer a clear differential advantage in the eyes of the customer.

Examples:

- Does the product or service you provide clearly meet the customer's needs better than your competitor's product or service?
- Does it have certain unique qualities that allow the customer to distinguish your product from all the others out there?
- Does it help the customer reduce net costs or do their job better?
- Is the product new, creative, innovative, or a new application of an existing product?

> *Research shows . . .*
> *Excellent firms believe that distinctive product features are important!*

3. Make your choice of a new product or new market, or both based on sound marketing research and a formal marketing process. Basically, do your homework first, put it all in writing, and evaluate it based on realistic goals and objectives.

Examples:

- Have you searched the Internet or visited the library to see if there are applications for your product you haven't thought of?
- Have you talked to industry experts to get their opinions of what to do, or how to go about it?
- Have you discussed this with your entire staff (including clerical, sales, and delivery people)?
- Have you looked at all your historical data (such as sales and profit figures, inventory histories) to anticipate trends?
- Are your promotional expenditures in line with your sales objectives?
- Have you analyzed and formulated your complete marketing mix for the new endeavor?

Step 2. Evaluating Markets
(Where can we go?)

So now you've done the background work, you've selected a product(s) to go forward with, and you have some idea of the type of customer you want to go after. So how do you pick exactly which customer to pursue? How much are you going to sell them? Are they worth the effort? How do you forecast sales to this new target? And, how should you position your "offer"?

The basis of evaluating markets lies in segmenting the market, targeting market segments, and forecasting demand for your product.

Segmenting the Market

A market is defined as an aggregate (group) of people who, as individuals or as organizations, have needs for products and who have the ability, willingness, and authority to purchase such products.

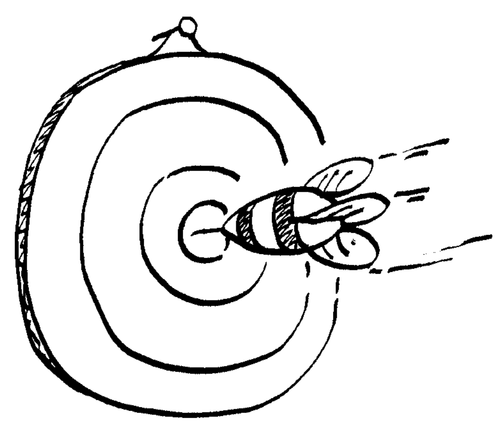
Segmentation is the process by which the total market is divided into smaller groups consisting of those seeking relatively similar product attributes (such as low price), in order that company resources may be more accurately focused to meet those needs.

Some of the more common approaches to market segmentation involve using the following variables:

- Demographic variables, to separate customers based on size of company, credit rating, time-in-business, and volume of product they use. This could also mean separating customers based on demographics of the main buyer at the customer firm, such as age, gender, and education.
- Geographical variables, to separate customers based primarily on location, but also based on climate, terrain, natural resources, and cultural values. This approach is very common in the wood products industry—to some extent as a result of freight costs, and to some extent due to tradition.
- Psychographic variables, to separate customers based on personality characteristics. For example, what are the habits, interests (e.g., they golf), and lifestyles of both the individual buyer and the company they represent? Does the company put out bid lists? Do they like to visit the mill first? Do they need written or verbal confirmation? What is their corporate "culture?" These are the activities, interests, and opinions of both the individuals and firms themselves.

Targeting Market Segments

Selecting a target market is simply the matter of choosing the segment(s) of the market that you are best able to satisfy, and which also meet the requirements you have selected as being optimum for a "good" customer. This is primarily a matter of matching your strengths to customer needs, in areas where your weaknesses are minimized. As part of target selection, it is a good idea to make some form of forecast of the sales potential for the targets you have selected, to be sure you have chosen the ones most worth your effort.



Select target markets carefully!

Forecasting Demand for Your Product

Once you have a few targets defined, there are a number of ways of forecasting demand for your product. Some are quite simple and some extremely complex. Here are five common ways: sales force estimates, buyer interviews, expert opinion, time-series analysis, and market test.

1. Sales force estimates—Your sales personnel estimate expected sales by customer and by product. Management may want to occasionally adjust such estimates based on their greater knowledge of market conditions. But these kinds of estimates tend to gain accuracy over time (with annual use), and have the benefit of being extremely detailed. In addition, sales representatives have greater confidence in their quotas and more incentive to achieve them, if they participate in the forecasting process.

2. Buyer Interviews—Your sales force, or an outside agency, asks buyers, or potential buyers, detailed questions about their anticipated needs. The difficulty is that buying habits can be erratic, or buyers simply don't know what to expect. However, for some industries and some firms, purchasing behavior can be projected out at least 3 to 6 months. You just have to ask!

3. Expert opinion—Consulting with industry experts is probably the approach used most commonly by wood products firms today. With this approach, you simply ask the people you respect most what they expect. The difficulty here is finding those with the knowledge specific to your new markets. To find them you may have to use referrals, for example by asking at trade shows and association meetings and calling them or going to see them. You might be surprised by how many of your suppliers and other existing contacts are already familiar with what is new territory to you. Use these resources.

4. Time-series analysis—You evaluate data on historical sales of products similar to yours, or ones that fulfill a similar function, for the market you are interested in. A surprising amount of data is available in libraries and at universities that provide a fairly complete historical record. From this and any data that you can obtain directly, such as by looking at your own historical trends, you attempt to create a portrait of the activities for the coming year(s).

5. Market-test—This test method is especially desirable for a completely new territory or a completely new product. There are numerous marketing texts on this process. The gist of the story is that you try out your whole marketing mix on a very small scale, but in proportion, to get an idea of what to expect—before you launch into full-scale production.

It is very common for wood products companies to try pieces of the market-test method, in that they will make a few samples of a new product and sell them to a couple of close customers for feedback. The difference here with the market-test method is that you **simultaneously test not only your product, but also the entire marketing mix** of price, product, promotion, and distribution. From a small test over a short time period you develop some estimate of the sales volume you might expect from the total market. This process also provides feedback on the effectiveness of your marketing mix.

At this point you've segmented your customers into groups, selected target markets, and have developed a forecast of your sales volume for certain targets. The next step is to decide how to position your product for final promotion. You select your product positioning approach as part of designing your overall marketing strategies.

Step 3. Designing Marketing Strategies
(How should we do this?)

<u>What are Marketing Strategies?</u>

Marketing strategies define the approach by which a firm plans to achieve its specific goals and objectives for a specific product in its target market(s). These strategies tend to be broad in scope. Marketing strategies are designed with the objective of differentiating and positioning your product in a target market. With each step in the process you are getting more focused and more precise in defining how your firm and customers will interact. In designing your marketing strategies it is necessary to take into account what the situation is and to determine what should be done to achieve success.

<u>What Is "Product Positioning?"</u>

The positioning of your product is a critical part of the marketing strategy process, and specifically involves those activities by which you **create the image of both your company and your product in the eyes of the customer**. For example, you won't get a premium price for your product if your image is one of a low–cost discount producer, and both your price and your promotion focus just on your product's price.

To position your products profitably, you need to know exactly what needs your customer has, and how well your firm meets these needs. A couple of very handy tools are available to help you visualize this information: the importance-performance grid and the product-positioning map.

Importance-Performance Grid

To develop the importance-performance grid (Figure 2) you must survey your customers and have them rank the attributes in question. Usually these attributes are ranked from 1 to 5, with 5 being the highest. You would want to ask separate two separate questions:

- How important is this attribute?
- How well does my company provide it?

Sample questions for the attribute "same-day delivery" are given below.

How important is it for your company to receive same–day delivery on the product(s) you order? (Circle one)

Unimportant			**Very Important**	
1	2	3	4	5

How effective is our firm at providing the type of delivery service your firm desires? (Circle one)

Not Effective			**Very Effective**	
1	2	3	4	5

In this case "effectiveness" is your performance rating for this attribute!

You would then ask similar questions for a number of different products or services you provide, remembering that each attribute requires both an importance and a performance type question. Your sales staff can easily administer these questions over the phone, in person, or through the mail. They don't have to be presented in a structured survey, but can be cloaked in normal conversation. As you gather input on a number of different attributes you begin to paint a very clear picture of the customer's specific wants and needs. Written questionnaires can even provide insight into some of the customer's unspoken or subconscious wants and needs.

Once you have gathered your customers' responses for all attributes, there are three ways to plot them:

1. On a separate grid for each **customer**. On this grid you plot one customer's response for all attributes. This allows you to compare how well you meet the specific needs of this customer for the different attributes.

2. On a separate grid for each **attribute**. On this grid you plot the responses of different customers for one attribute only! This allows you to compare how well you meet the needs of different customers for one attribute.

3. On one grid using the **average of all customers'** responses for each attribute. This allows you to compare how well you meet the needs of customers, in general, for each attribute.

You interpret the grid depending on which quadrant the results fall into:

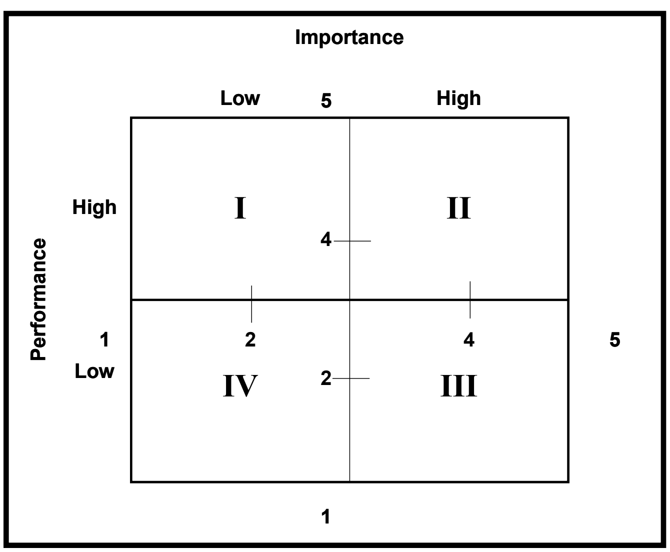


Figure 2. Importance-performance grid.

Quadrant I: If you have high performance and low importance, you may want to de-emphasize this attribute, and it certainly won't help in your sales pitch. Keep up the good work, but don't brag about it.

Quadrant II*:* If you have high performance and high importance, you want to broadcast this at every opportunity. Emphasize this to your customers in every way you can and consider opportunities for premium pricing.

Quadrant III*:* If you have low performance and high importance you need to work very hard to improve your efforts. You may need further, more specific information from your customer to learn how you can improve in their eyes! But, if it's important to them, it's worth your effort.

Quadrant IV: If you have low performance and low importance, you may not need to worry about it. Don't waste a lot of time and money improving areas your customer could care less about.

Product-Positioning Map

The product-positioning map (figure 3) is similar in concept to the importance-performance grid but portrays slightly different information. The map shows whether there is a niche you can fill that others do not.

To create a product-positioning map you must be able to identify your competitors' volume of sales in a product, their average price for that product, and the customer's view of the quality of that product. As with the importance-performance grid it would be valuable to survey your customers on the quality aspects of your product and your competitor's products. Often a blind survey is the most useful approach, and a local college or university can be of great help in getting the most objective response from your clients. A formal independent survey is not essential, however, as you are just trying to get "relative" quality and not trying to achieve statistical perfection.

The simplest approach is to have your sales personnel ask your customers to rank the quality of your competitor's products from 1 to 5, with 1 being poor quality and 5 being excellent quality. Let your customers define quality, as you are simply trying to identify their impressions relative to price. You then chart the average quality reported by your customers for a competitor against the average cost of their product. This will give center points for the circles! You then take the dollar sales of each of those competitors and create circles whose size (area) reflects the relative difference in volume between competitors. For example, if competitor A has twice the sales in that product of competitor B, competitor A's circle should have twice the area of competitor B's circles. The only guideline on starting size for the circles is that you want them to all fit on the grid. It is ok if some of them overlap.

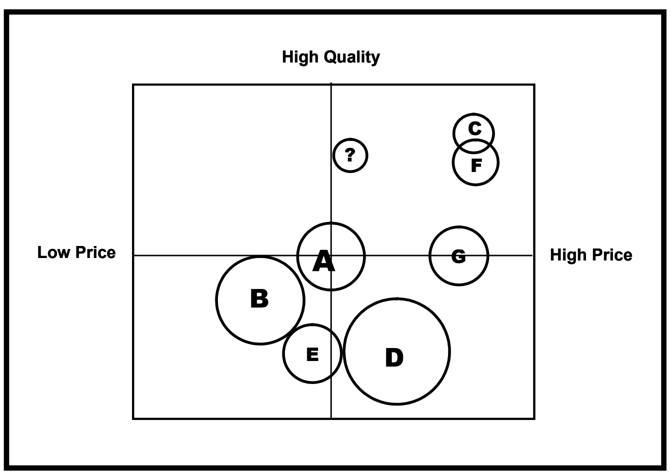


Figure 3. Product-positioning map.

The **size** of the circles on the map indicates the relative size of the different firms in the marketplace. The **location** of the circles indicates the price/quality relationship of your product with that of your competitors. In the example in Figure 3, there appears to be an opportunity for a firm to produce a high quality, moderately priced product without much competition (see "?"). However, the firm must be realistic about how they evaluate their own quality. Quality is always judged from the viewpoint of the customer. If a customer can't discern a difference, there isn't one!

<u>Other Considerations for Marketing Strategies</u>

In developing your company's marketing strategies you must also take into consideration existing products in existing markets, and their position in the product life cycle. That is, are they still in the growth stage, the maturity stage, or is the market for these products generally in decline? Each of these stages requires different marketing strategies.

Finally, you would want to consider your firm's role in the marketplace. Are you a market leader? Are you challenging someone else's lead? Are you simply a follower of the "big boys?" Or are you carving out your own niche? Again, each of these roles requires careful consideration and recognition of the differences. And each role requires the use of a different strategy for successful implementation.

Step 4. Planning Marketing Programs
(Who does what?)

Now you are getting into the "nitty-gritty" of the marketing planning process. Marketing programs define how things are to be achieved, how they are to be paid for, and how company resources (such as personnel and equipment) are to be allocated to achieve the firm's goals and objectives. It is here that your company "fleshes out" its marketing mix of product, price, promotion, and place.

Product: Exactly what is your fully "augmented" product? This means, what is the complete package that your customer is paying for? What features (such as service level, warranty, accessories, packaging, and credit) are you providing for the price?

Price: How are you pricing your product, and is this going to change for your existing project? Do you have some advantage (such as a patent, location, or high entry costs for competitors) that allows you to realize higher-than-average profits from your market or with your new product? Are you trying to quickly penetrate (enter and grow quickly in) a new market and are thus keeping margins small to get as many new customers as possible? Maybe you are somewhere in between these two strategies.

Promotion: How are you communicating your benefits to your customers? Are you going to advertise, and if so, in what media? What is your message? Do you have sales brochures? Who does the sales? What about public relations?

Place: How are you going to distribute the product? Will it be sold in single units or in volume? How, when, and where will it be stored? What channels will you go through to get to the final customer? Do you go directly to retailers, use wholesalers, or skip them all and sell only to industrial accounts?

All of these questions (and more) must be answered in designing your marketing programs, and at this point you must begin to assign a budget to each of the four P's. You are finally hammering out the details of how things are going to get done.

Step 5. Organizing, Implementing, and Controlling the Marketing Effort
(Is it working?)

The final step in Stage 1 of the marketing planning process involves decisions concerning who is going to do what, so that your plan is implemented in the most effective manner. This step also involves development of control systems, to be sure results are continuously monitored, and activities are modified as necessary. Continual feedback must be obtained and reviewed to assure that your firm is adapting to new situations and adjusting to changes in the internal and external economic environment.

Stage 2. Developing the Written Marketing Plan
(Put it on paper!)

The formal marketing plan is the brief written report (10-15 pages) that develops from the above process and generally includes the following sections:

A. Executive Summary
B. Current Marketing Situation
C. SWOT Analysis
D. Company Goals and Objectives
E. Marketing Strategies
F. Specific Action Steps
G. Projections
H. Feedback and Control.

Keep marketing plans concise!

A. Executive Summary

Your marketing plan should begin with a short summary of your major goals and recommendations. This summary should be about one page in length, and enable your readers to quickly understand the basics of the plan. An abbreviated sample might look something like this:

> *The 2005 marketing plan is designed to increase WoodCo's sales of custom cabinets by 20 percent to $1.5 million. The profit objective is set at $165,000. We expect to meet these increases by adding one salesperson to the Wisconsin territory. A slight decrease in gross margin (from 12 to 11 percent) is anticipated due to nonrecurring costs associated with the hiring and training of the new sales representative. The marketing budget is set at $288,000, an increase of 2 percent over last year ...*

B. Current Marketing Situation

In this section briefly describe what are often called the three C's of marketing: Customers, Company, and Competition. You want to include data on the markets, product and distribution activity, and a general environmental overview.

<u>Customers</u>

Include data on the market in general for your products and for the customers in your different target markets. Use data gathered earlier in the process to discuss issues like needs, buyer behavior, and customer trends. You should discuss the size and growth of the market.

Examples:

- *The market for wooden outdoor playground equipment has been growing at a 10 percent annual rate for the last 4 years.*
- *Purchase of wooden playground equipment by municipalities, school systems, and day care enterprises has increased by over 50 percent in the last 2 years.*
- *The National Association of Playground Builders anticipates that total consumption of outdoor playground equipment will exceed $300 million by 2010, and that over 60 percent of sets sold will utilize wood as the primary structural component.*

<u>Company</u>

Here you want to get into the specifics of the situation related to your products, such as sales, prices, and contribution margins. Contribution margin is the portion of sales each unit contributes toward what is generally considered as fixed costs. Again, you want to show these margins for each of your major products for the past few years. This information is *usually given in tabular form,* but would include some description or explanation of the trends and impacts on company profits. In this section, you should also briefly discuss the distribution of your products, including the number of units sold in each channel. A marketing channel is the series of businesses a product passes through to reach the end user. Two examples are: manufacturer to wholesaler to retailer to contractor and manufacturer to wholesaler to contractor).

Examples:

- *The average retail price for Wood‑N‑Stuff chairs has increased by at least 10 percent in each of the last 3 years. As a result, chairs have the highest contribution margin of any Wood‑N‑Stuff product.*
- *Competition from imported products has made the market for dining room tables very competitive, reducing average prices for this product line in each of the past 2 years by an average of 7 percent. Tables no longer contribute directly to fixed costs, but are an integral part of dining room sets, which have an average contribution margin ...*
- *Countertops are sold through a variety of channels, including retail home centers, contractor yards, specialty kitchen and bath stores, and direct to contractors. Table XYZ shows the volume of countertops by product line sold through each of these channels by Cabinets-R-Us. Of all countertops, 35 percent were sold direct, 20 percent through home centers and contractor yards, and 45 percent through specialty stores.*

Competitors

In this section you should identify the major competitors and their products. They should be described in terms of their size, market share, product quality, marketing strategy, distribution methods, and any trends that are apparent. You should review this information for each of your major competitors.

Example:

Fernholz Lumber Co. is our primary competitor in the Norway pine board market in central Iowa. They market a complete line of pine boards primarily for the residential housing market. They sell directly to the home centers in truckload and half-truckload quantities. They are not known for the highest quality, but their service is excellent, their pricing is very competitive, and they have captured approximately 25 percent share of the market for #2 and #3 common boards in this state.

C. SWOT Analysis

Given the situation you have described above, what do you see as significant **S**trengths, major **W**eaknesses, potential **O**pportunities, and possible **T**hreats that should be addressed? This is often described as the **SWOT Analysis**. These factors are usually separated into two categories—one for inside factors (strengths and weaknesses) and one for outside factors (opportunities and threats).

Strengths and Weaknesses

You should include statements that identify the strengths and weaknesses of your company and product lines. These help the reader to understand the basis for your strategies.

Examples:

Strengths

- *Wood‑N‑Stuff is recognized as a producer of the finest quality playground equipment in the nation.*
- *Over the past 3 years, Cabinets‑R‑Us has managed to pay off all long- and short-term debt.*
- *Red Pine Manufacturing has a close and long‑term relationship with customers representing 85 percent of the market for red pine in the Great Lakes region.*

Weaknesses

- *As the manufacture of wooden fixtures and millwork has become more technical, we are experiencing a critical shortage of employees with the training and experience to operate the new equipment.*
- *Competitors are currently spending twice the amount of money as WoodCo is on advertising in our key markets.*
- *Wood-N-Stuff chairs are not perceived as being of higher quality even though they are priced higher. Thus the price-conscious buyer is being lost.*

Opportunities and Threats

Your report should also include several brief statements that describe the opportunities and threats facing the business and suggest, or imply, some action steps that might be taken.

Examples:
Opportunities

- *Customers are showing an increased concern about the environmental impacts of building material choices. Wood-N-Stuff should consider using wood from only sustainably managed forests.*
- *Repair and remodeling (R&R) is becoming an increasing portion of the total consumption of cabinets and millwork. Cabinets-R-Us should develop a line of cabinet doors, drawer fronts, and frames that can be used to upgrade existing cabinets in place, thereby avoiding the expense of removing and replacing entire kitchens.*

Threats

- *The steel industry has developed a major national advertising program to promote the replacement of wood frame housing with steel framing. Steel is described as the environmental choice due to its high level of recycled content. Red Pine Manufacturing does not have the resources to compete with this type of advertising program.*
- *International Wood, Inc. is establishing a factory 10 miles down the road in Lenora that will produce fixtures that will compete seriously with our moderately priced showcase line throughout the greater Twin Cities Area.*

Finally, given the SWOT analysis, are there any significant issues that need to be addressed in your company's goals and objectives? If so, what are they and what are the possible solutions?

Examples:

- *Should Wood-N-Stuff stop making tables and instead buy them from outside sources for use in their dining sets?*
- *Should WoodCo increase its advertising expenditures to match those of the competition?*
- *Should Wood-N-Stuff undertake some marketing research to determine the markets for, and impact on, existing lines of a more moderately priced line of chairs?*

D. Goals and Objectives

At this stage you have summarized your situation as it now stands, and what has been going on recently. You've prioritized your strengths, weaknesses, opportunities, and threats. And you've raised some issues of importance to the company. Now it's time to set your financial and marketing objectives. Remember, goals can be general but objectives are specific.

Examples:
Financial

- *Produce a net profit next year of $225,000.*
- *Generate an average rate of return on investment (ROI) of 15 percent over the next 5 years.*

Marketing

- *Produce sales of $5 million within 3 years.*
- *Increase by 50 percent the number of customers who rank WoodCo's quality as being excellent.*
- *Increase the frequency of contact with our customers to a minimum of once per week.*
- *Raise the average realized selling price of all products by 3 percent.*

Remember, objectives should have some real or implied time period for accomplishment, be stated in order of importance, be clear, realistic but challenging, very specific, and measurable!

E. Marketing Strategies

Now that you've stated where you want to go, there are a number of ways you can get there. For example, to increase sales you can increase the average price per item, increase the number of items sold, sell more high-priced items, or all of these. Your goal now is to choose the path that is most likely to achieve your objectives at the highest level of reward. This involves formulating strategies.

In forming strategies you are simply making decisions about choices, and defining those choices specifically. Effectively these will revolve around your marketing mix (four P's), and targeting and positioning strategies.

For example:

***Target**:* *Price-conscious buyers of chairs in the Twin Cities area, especially female buyers.*

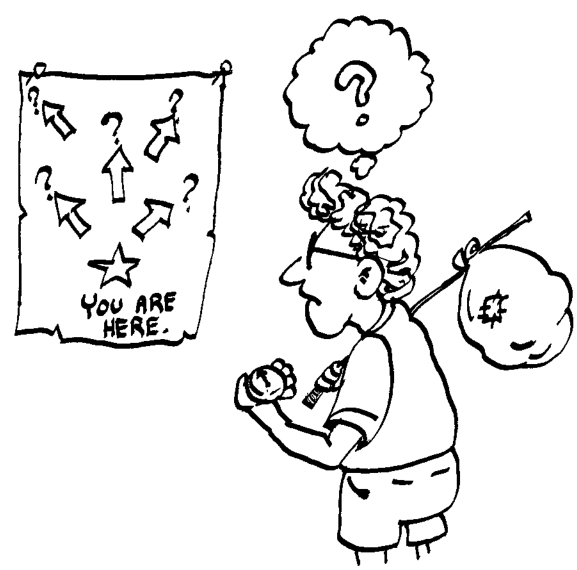
Positioning: *Emphasize the high quality/value-priced relationship. Key terms are "sturdy, yet attractive," and "at a modest cost."*

Product: *Establish new brand, with three styles of chairs in oak, maple, and pine. Key characteristics are simple form and sturdy construction.*

Price: *Price directly with competition.*

Distribution: *Distribute primarily through furniture stores and major department store chains. Utilize existing sales force with new brand manager. Distribute to as many outlets as possible and emphasize prompt delivery.*

***Promotion**:* *Advertise both at point of sales and through brochures to the sales staff at the distribution outlets. Emphasize the quality/price relationship. Offer additional sales incentives to company sales staff and, in particular, to sales personnel at new outlets.*



Choose the best path to meet your objectives!

Finally, establish some form of marketing research, either through your sales staff or some outside agency, to evaluate your performance and customers' perceptions throughout the process.

F. Specific Action Steps

Now that you've described what is planned in a broad sense, it's time to get down to the details. In this section you want to describe exactly **what** you are going to do, **when** you are going to do it, **who** is going to do it, and **how much** the entire program is going to cost.

Examples:

- *Wood-N-Stuff management will budget $5,000 to hire an advertising agency to work with staff, to develop a brochure for the new line of chairs. Bob Davies will be responsible for the development and completion of this project. A budget of $20,000 will be set aside for the direct costs associated with the printing of the brochure. This project will be completed by May 1.*
- *A budget of $75,000 will be set aside for costs associated with hiring, training, and the first-year salary for a new brand manager for the new line of chairs. A commission based on total sales of this line will also be paid and is estimated at an additional $10,000, based on first-year sales projections.*
- *To meet the sales and profit objectives of the firm, the suggested retail price of the new line of chairs will be $99 per chair, with a markup of 85 percent. Volume discounts of up to 20 percent off wholesale prices will be available to stocking distributors.*

G. Projections

This is one of the most straightforward sections of the written marketing plan. Using data gathered previously, develop a budget to undertake the project as you deem best, and then develop an estimate of sales and profits that will result. It is especially important to note the process here. You first estimate a budget to cover the costs and then you estimate sales—not the other way around.

Why? Your sales are as dependent on what you spend to attain them as your costs are tied to the amount you sell. For example, increased spending in advertising assumes you will have increased sales. Estimating your budget first is the proactive approach, and recognizes your ability to control and impact your own results. You do the best you can, with what you have!

Usually projections are provided in a simple table, with a timeline. This section would also include a profit-and-loss statement based on projected costs.

H. Feedback and Control

Now you need to discuss how you will monitor the process and control your plan's implementation. Here are some example questions as guides:

- Do you need customer surveys to measure attitudes?
- How will you gather and analyze sales data? Are existing methodologies sufficient?
- On what time schedule will you review your progress … Daily? Weekly? Monthly?
- What will constitute not achieving goals along the way? Being behind at all? Behind by 5 percent?
- What will trigger a major reconsideration of the project?
- What about contingency plans for things

like strikes?

- Who makes the final decisions on any changes to the marketing plan?

These are just a few examples of the things you should consider. Remember, the more thorough your plan, the more likely the project is to be successful. Don't kill a year's sales by skipping an hour of thoughtful brainstorming about what might go wrong, or what you might do if things go better than expected. The key is to be prepared!

Helpful Internet Sites

The Internet has become a powerful tool in conducting market research and analyzing competitors, as well as a place for advertising and sales. Although the Internet should not be your only source, it does enable you to quickly and efficiently locate and organize large amounts of information. The following is a sampling of sites you will find useful for gathering ideas and trends, industry statistics, publications and articles, market and price reports, and general forestry and wood products information.

GOVERNMENT SITES:

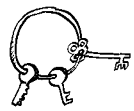
http://www.fpl.fs.fed.us - USDA Forest Service Forest Products Laboratory.
http://www.fas.usda.gov/ffpd/fpd.html - USDA Foreign Agricultural Service, Forest and Fishery Products Division.
http://www.unece.org/trade/timber/ - United Nations Economic Commission for Europe Timber Committee.

SOCIETIES:

http://www.forestprod.org/ - Forest Products Society
http://www.safnet.org/ - Society of American Foresters

ORGANIZATIONS AND TRADE ASSOCIATIONS:

http://www.hardwoodinfo.com/ - Hardwood Information Center
http://www.natlhardwood.org/ - National Hardwood Lumber Association
http://www.hpva.org/ - Hardwood Plywood and Veneer Association
http://www.wwpa.org/ - Western Wood Products Association
http://www.sfpa.org/ - Southern Forest Product Association
http://www.woodcomponents.org/ - Wood Components Manufacturers Association
http://www.apawood.org/ - The Engineered Wood Products Association
http://www.cintrafor.org/ - Center for International Trade in Forestry
http://www.afandpa.org/ - American Forest and Paper Association
http://www.fsc.org/ - Forest Stewardship Council Market and Price Reports:
http://www.rlpi.com/ - Random Lengths
http://www.hardwoodreview.com/ - Hardwood Review



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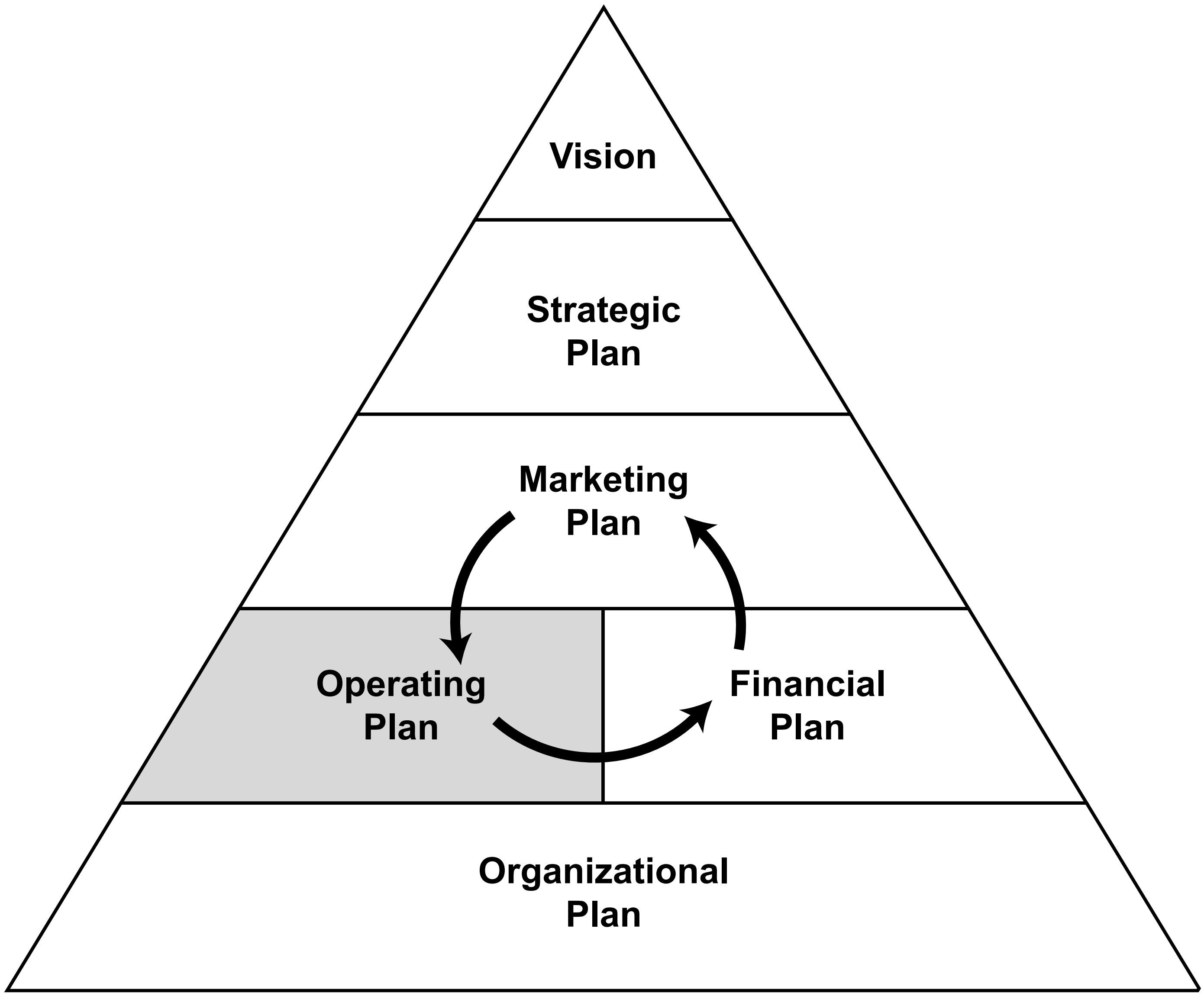
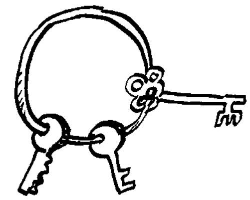


The Planning Pyramid

Part V.

Creating an Operating Plan

(What are our resources?)



The operating plan simply describes how you plan to manage your company in both the short and long term. This plan includes management of the plant, physical equipment, materials, and your employees.

Describing Resources and Activities

Your operating plan should describe your resources and activities:

Your company's location(s), including …
- Any special abilities or requirements
- Why you chose the location(s)
- Facility costs, including a breakdown of per-foot costs.

Physical equipment, including …
- Number of units of each
- Value and replacement cost
- Explanation of financing arrangements, if applicable.

The labor force, including …
- Names of management
- Salaries
- Labor positions, annual wages, and a comparison with prevailing wages in the local area
- Fringe benefits and costs
- Workers' union(s) if applicable
- Discussion of any staff additions
- Discussion of stability of positions (such as seasonal or cyclical)
- Special skills needed or training provided.

How you will access raw materials, including …
- Sources
- Projected costs
- Freight methods and costs
- Factors that may potentially influence availability of these materials
- Anticipated terms of purchase, lead times, and industry standards for these items.

Anticipated production schedule, including …
- How product will be manufactured
- Expected delays to start-up
- How you will account for work-in-process
- Your inventory control procedures.

Long-range plans, including …
- The ultimate goal of the business
- Plans to achieve that goal
- Your planned business environment and the work attitudes you desire to foster
- Discussion of possible expansions, diversification, and additions.

Other items to include, if appropriate …
- Customer service and support
- Quality control measures
- How "risk" will be managed.

Setting Detailed Operating Goals

A key component of an operating plan is its list of specific objectives, the means of evaluation, and the timing of the evaluation process. Often these objectives are based on some benchmarks that are created through previous experience or actual measurement and calculation. Here is a short list of some sample areas of evaluation for different areas of the company, the benchmarks, evaluation method, and schedule:

Labor

Benchmarks
- Last year average production was 1,200 board feet per person-hour
- Goal is 1,500 board feet per person-hour

Measurement
- Calculated weekly by work cell (e.g., ripsaw)
- Measured in cents per foot ($0.00/ft)

Schedule
- Data collected daily, per shift
- Graphed weekly
- Reviewed weekly by leads and operators
- Reviewed monthly by management.

Materials

Benchmarks
- For the last 3 years, 8 percent of raw wood has gone to a landfill
- Goal is reducing that rate to 5 percent

Measurement
- Waste calculated daily by work cell
- Measured in total dollars ($0.00)

Schedule
- Data collected daily, per shift
- Graphed monthly
- Reviewed monthly by leads and operators
- Reviewed quarterly by management.

(Note: All material savings measurements should be crosschecked against quality measures! You don't want material savings at the expense of poorer quality!)

Planning

Benchmarks
- Last year's planning process involved 5 percent of the company and took 90 days to complete
- Goal is to include 25 percent of the company's employees and reduce time to 30 days

Measurement
- Days to completion

Schedule
- Data collected by management
- Reviewed annually.

Smart people have written plans.

Developing Action Plans

Once you have all your goals identified, and you know how you are going to measure "success," it is generally up to the front-line employees to identify the specific actions or tasks they are going to undertake to achieve these goals. Ideally the company will have used employee input on setting these goals (and may let employees set their own), to generate the greatest degree of "buy-in" possible on the plan. An action plan generally takes this form: action, champion (lead person), and completion date. Often these are tracked on a spreadsheet for simplicity, as in the following examples:

Action	*Champion*	*Due By*
Install larger horsepower motor on table saw	Dan - Maintenance	February 28
Establish 5-minute meeting daily with operators	Leads	January 1
Move trash cans to more central, visible locations	Pat - Maintenance	March 1
Post graphs of labor and material usage trends	Bob - President	January 1
Post company vision and values	Janet - HR	February 1
Purchase and install new Dado machine	Ann - Prod. Mgr.	July 1

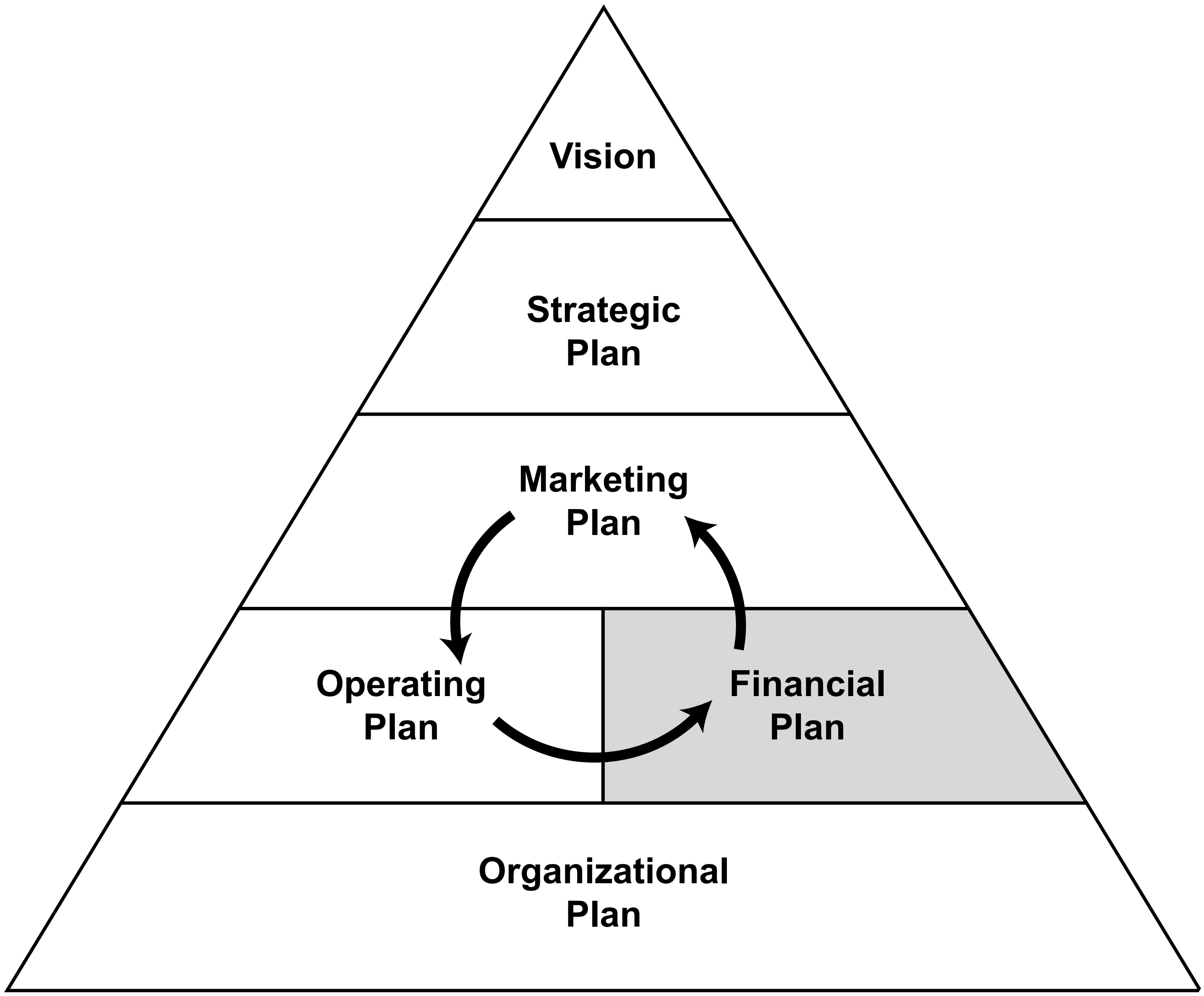
Addressing Strategic Operating Issues

Finally, address those strategic issues defined in your plan that relate specifically to operations.

- Is it important to upgrade your facility?
- Are your technological capabilities up-to-date?
- Is employee access or training a strategic issue?

In any of these cases you should include in your operating plan specifics of how you are going to address those issues, with actions, champions and timelines for every issue.

Do not ignore a strategic operating issue in a plan without commenting on why! For example, you might comment that although "x" is a strategic issue, you are going to focus on "y" this year and "x" next year as a way of leveraging your investments and maximizing your effectiveness.

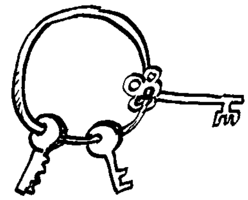


The Planning Pyramid

Part VI.

Creating a Financial Plan

("Show me the money!")



Developing a financial plan can be extremely difficult if you do not have an accounting background. In that case you should seek the help of an accountant. Basically, you need to develop a detailed 5-year plan, and you need to provide a source (such as government or industry forecasts) to justify your estimates. Be sure to use reliable sources! Generally there are five parts to a financial plan.

A. Listing of capital requirements, sources of information, contingencies, and reserves.

B. Description of your financing plan, including all major alternatives considered and all sought. Describe all sources of capital.

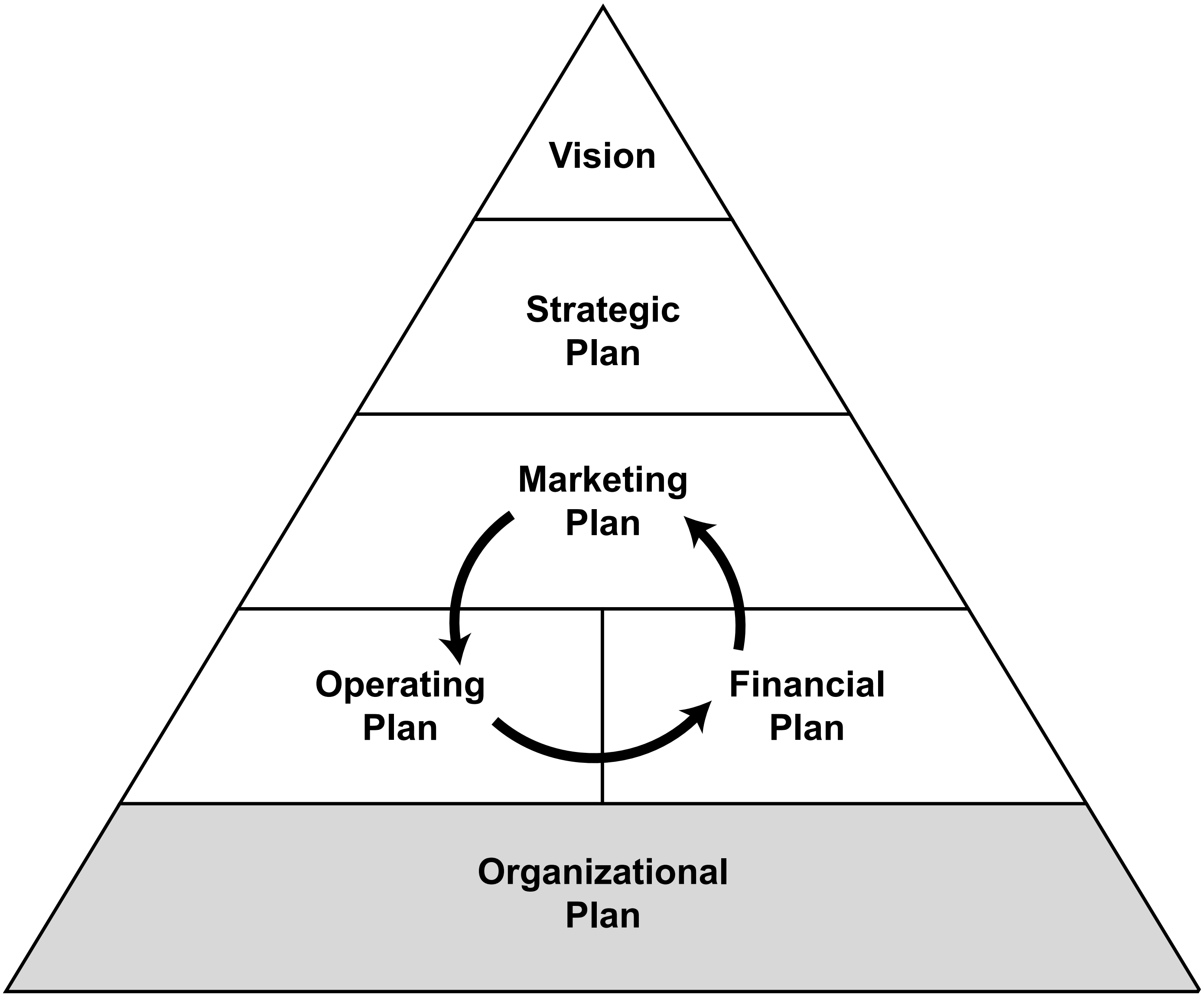
C. Beginning balance sheet (current if presently in business, pro forma for a new business. A pro forma statement provides a forecast of expected financial performance, rather than a history of actual results.).

D. Complete statement of projected operations and cash flows. Include monthly data for year 1, quarterly data for years 2 and 3, and annual data for years 4 and 5.
   - Separate the plan into sales and financial sections
   - Explain assumptions in footnotes
   - Discuss how costs may fluctuate with production volumes
   - Describe the cost system and budgets you will use.

E. A discussion of the investment criteria that you use, including calculations for …
   - Internal rate of return
   - Break-even point (See example in Appendix A)
   - Present net worth
   - Ratio of present net worth to initial investment
   - Any other ratios requested specifically by your audience
   - Sensitivity analysis, showing changes in interest rates and their impact on your figures.

Remember to include a discussion on how you are going to finance your growth!

For many companies it is not the stuff they buy that takes the greatest investment, but the amount their customers owe them. In some situations it is the growth in receivables that is not anticipated on that causes the most bankruptcies rather than some problem with selling or making products. In a similar manner, remember that receivables and inventory are significant assets that need to be managed and monitored as carefully as any manufacturing process.

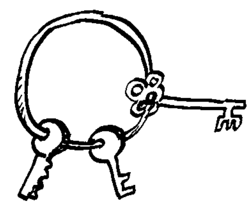


The Planning Pyramid

Part VII.

Creating an Organizational Plan

(Who reports to whom?)



The success of a company rests on both the talent of the people and how well they are organized. A company's organizational plan is the most important aspect of the company, and often the most ignored. Yet, it is the decisions of each and every individual that truly impact the fate of the organization.

- Do I ship a substandard part?
- Do I not ship a substandard part?
- Do I change something on the shop floor?
- Do I keep it the same?
- Do I buy?
- Do I not buy?
- Do I have enough information?
- Do I have the support of others?
- How will this impact other departments?
- Do I care?

These are just a few examples of decisions people in businesses are making daily. How your firm is organized impacts the quality of response to each of these questions.

The organizational plan basically includes the following information about the company:

A. Vision and mission statement
B. Values statement
C. Ground rules
D. Organizational structure
E. Systems plan
F. Teams
G. Human resources plan.

A. Vision and Mission Statement

It all starts with the vision! See Part II of this planning guide for guidance on developing vision and mission statements. The written organizational plan summarizes these briefly.

B. Values Statement

(See Part II for developing the values statements.) Again, either summarize your values here or refer to them if part of a total plan.

How you organize depends to a **critical** degree on your behavior expectations and what stage of development your organization is in currently. To a certain degree, these two areas can be discussed in the context of culture and performance. Since this is such an important part of your organizational plan, let's look at these two topics in a bit more depth.

Culture

A company's value statements and behavior expectations help form the base of the company culture. As a company grows it begins to develop a personality of its own, which is molded by its creators but is often separate and distinct from any individual. The power in this culture is in its clarity, rather than its particular nature. That is, the exact style of the company doesn't matter as much as everyone being clear about that style and being "in sync." There are two basic ways to describe company culture—open or closed. Each tends to have characteristic traits.

Open Cultures

- Cross-functional sharing of information and partnership is encouraged.
- Risk-taking is encouraged.
- Responsibility is shared.
- Input is welcomed from all sources.
- Individual power comes through teams.
- Team activities focus on consensus building.

Closed Cultures

- Specialization occurs around company functional areas.
- Risk-taking is controlled.
- Responsibility rests with the individual.
- Input is generally guided through clear hierarchies.
- Individual power comes through a clear hierarchy.
- Team activities focus on feedback and information sharing.

There is no right or wrong to either company culture. Rather, it is more important that the culture of the company and that of its top leaders match! Also, most companies are not at the extreme of being open or closed, but somewhere in between. The key is to recognize your culture, hire individuals that fit well in that culture, and make that culture consistent and pervasive throughout the company.

Performance

Regardless of culture, one thing is clear—as a company grows and shifts through the phases described in the vision section (Forming, Norming, and Storming) three things become increasingly important:

- Sharing leadership
- Encouraging creativity
- Developing broader and deeper relationships.

Sharing Leadership

Often, as a company starts out, it follows the vision and expectations of a very small group of people, or possibly even one person. As the company grows and expands problems become more complex, more diverse, and encompass more arenas. At some point this can bring extreme stress to leaders if they do not share more of the responsibility, power, and decision-making. This change is fairly obvious as a company goes from the entrepreneurial spirit of the forming phase to the reliability, consistency, and repeatability of the norming phase. The same leader who got you off and running may not be the same individual who makes sure you can do the same thing, the same way, every day. They may need help, and may need to relinquish some power to that person to make the right decisions, which may be (and are likely to be) different ones than the entrepreneur would make. The new person must be able to focus on details, solving complex logistical problems, quality systems, and utilize tools like statistical process control (SPC).

The second change is less transparent, and may be even more important as a result. As companies get to the point where their markets are extremely competitive, they are often extremely good at efficiency, reliability, control, and all those traits that made them successful in the norming phase. But at some point profits may begin to decline, they may lose a major customer to a low-cost competitor (e.g., imports), or they may simply be feeling the stress of ever-smaller incremental gains. In this case the company needs to share leadership even further. Not only do they now need people who are good at efficiency and repeatability, they also need people who will challenge the status quo.

The manager that got the company "off and running" may need to relinquish some power as the company grows.

In the storming phase leaders need to be willing to try new products, new markets, and maybe even new businesses. And some of this will seriously challenge all those controls put in place during the norming phase! Much of the wood products industry is trapped in the norming phase. Many companies haven't yet identified leaders who are capable of bridging the skill gap to a new leadership model. Yet for some this is critical, especially those facing serious foreign competition. Doing more of the same thing but cheaper, is no longer an option. New, shared leadership patterns are critical.

Encouraging Creativity

Whether a company is trying to be more efficient, or trying to develop a new product, creativity becomes increasingly important. There are a number of things a company of either culture can do to increase creativity. Several key actions are these:

- Train, train, train
- Encourage input from bottom to top (front-line workers to the CEO)
- Expose leaders to external options (attend conferences, seminars, trade shows)
- Visit other industries with similar issues or activities
- Evaluate your competition endlessly (if you're a manufacturer, take their stuff apart and detail their manufacturing processes and approaches)
- Encourage the use of the highest level of technology
- If the company is batch oriented, explore more in-line processing
- If the company is an in-line processor, explore more batch or cell-based systems
- Apply LEAN business systems
- Use outside resources (e.g., consultants) including University, State, Federal or other.

And most importantly, capture all ideas in a formal manner, agree on which ones to explore, prioritize them, and assign champions, timelines, and a means for evaluating progress.

Developing Broader and Deeper Relationships

As a company grows it is important to expand both the number of relationships and the depth to which those relationships go. This is true for **all** relationships, including customers, vendors, employees, and the community.

<u>Expanding the Number of Relationships</u>

It is important that you expand the number of relationships to maximize the input you are receiving, from which you are making your decisions. This is not to say you would throw away long-term relationships that are benefiting you, such as with a key vendor. Having multiple vendors for a product, however, increases your flexibility and the amount of data you have available. This assumes of course that these vendors are selected based on differing abilities and are not simply "more of the same thing." The same is true of your customers. Although having a strong exclusive relationship with one customer may provide great financial rewards, the long-term health of your company may require you to seek additional customers that help you to learn the expertise for differing markets and changing times. These customers do not have to compete to be of great benefit to you.

<u>Expanding the Depth of Your Relationships</u>

Developing a more intimate understanding of your employees, your customers, and your vendors is critical to successful growth. It allows you to anticipate needs rather than react to them and to create lasting relationships in a time when fickleness is the norm.

C. Ground Rules

You have a clear vision, with a mission statement and a list of company values. From the above discussion you also have an understanding of some of the implications of those values on your culture, specifically as applied to your employees, customers, and vendors. Next you need a basic list of company ground rules.

The difference between company values and company ground rules is that company ground rules are "enforceable." That is, company ground rules are based on values, but are measurable, clearly identifiable, and anyone can implement them. A simple way to develop ground rules is to take your list of company values and develop a list of company ground rules that fully embraces those values. Here are two examples of value statements and ground rules that might be derived from them.

Value:
We value timeliness in all we do and expect every individual to respect the value of time to the company and to each other.

Ground rule:
We agree to start meetings on time, end on time, have clear agendas with time allowances, and to show up on time.

Comment: How often have you been in a team meeting where people showed up at random times, you started 15 minutes late, and you ended an hour past your scheduled time slot? This is usually due to individuals on the team having different assumptions about "timeliness" in regard to meetings. Agreeing to a common ground rule eliminates these varied assumptions.

Value:
We value the importance of good communication and the sharing of information in a proactive and timely manner.

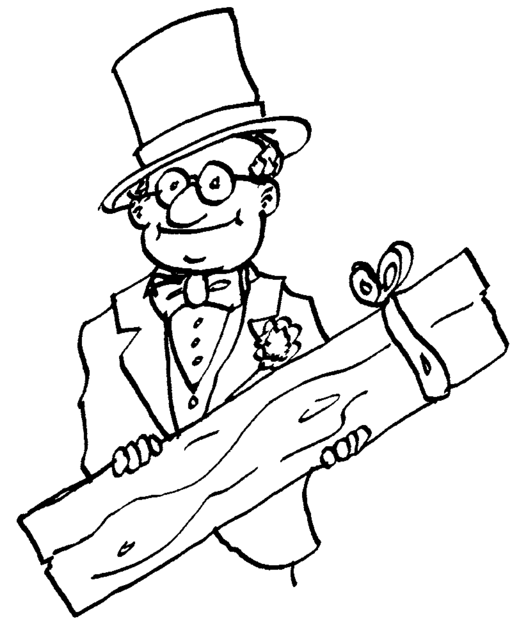
Ground rule:
We agree to use a common conflict resolution method and to begin using it within 48 hours of when a conflict is identified by the affected parties or by an outside party.

Comment: The conflict resolution method could be as complex as a specific process that requires training or as simple as sitting down for an informal discussion. The key is that the company has identified and is committed to a method, or range of methods, of conflict resolution.

In general, a company has less than a dozen core values and six to eight ground rules. In many cases, one ground rule may encompass several values.

D. Organizational Structure

It is remarkable how often you can walk into a company, ask an employee who their boss is, and have them answer that they are not sure! One key way to resolve this problem is to post an organizational chart in the facility for everyone to see, and to include it in your written organizational plan. This is simple to say, but sometimes much more complex to do, especially in small organizations where individuals tend to wear more than one hat. The solution is to chart all of the positions as you would do for a big company, but the difference is that in small organizations the same name is beside lots of positions. The positions should be linked in a reporting structure, meaning who reports to whom. Sometimes by creating this chart, which is a sort of company family tree, you realize anomalies that may be at the root of persistent issues that you've had a hard time "putting your finger on." Examples of these anomalies are someone with no boss, or someone with two bosses, or a person reporting to someone in a manner that might not have occurred if the structure was based solely on positions, rather than the people in them (which may indicate a personnel issue).



In small companies some folks wear more than one hat.

Once you have created your organizational chart, you need to evaluate it in terms of your vision. Here are examples of organizational decisions to consider.

- If the vision is for increased standardization (you are in the Norming phase), does your organization have someone at a key (high) level with the training or experience to champion or implement efficient processes and systems?

- If you're having unresolved quality problems, who is in charge of quality? If no one is, that tells you one thing. If you have someone and they report to "operations" and are still not getting it resolved, that tells you something different. In general, quality management should report to the highest company officer realistically possible.

- If your organization is trying to enter the storming phase and get out of the competitive mire, do you have the creative sales and marketing leadership to make this happen? And they can't report to operations if you are really trying to do something different!

- If you have complex financial issues (e.g., product costing, project evaluation, budgeting), do you have the analytical strength in your financial department to resolve these issues? You may need to add someone with analytical skills to your leadership team, to continue to grow.

Some might say, "We need several people but can't afford them. What if we hired someone who is "pretty good" in a lot of those areas?" Research suggests that successful organizations prioritize their needs, and apply the greatest amount of resources to the highest priority item. This information translates to hiring the best person you can possibly get to address the most strategic need!

The other important point is this: If no one has an issue or project as his or her primary focus, then it won't get done. Every key issue you are trying to address in your plan needs an individual champion, and if people have more than one "primary" issue to work on, you either don't have enough people or you are trying to do too many things!

E. Systems Plan

Systems are groups or categories of functions and activities. Each company has a slightly different list of systems, based on their core business and whether they are product- or service-based. Three of the more common systems are sales and marketing, financial, and operations. Four sample components for each are as follows:

Sales and Marketing

- Product development
- Sales management
- Customer service
- Promotion (advertising and public relations).

Financial

- Bookkeeping
- Budgeting
- Payroll
- Banking, insurance, and legal.

Operations

- Production
- Project management
- Quality
- Maintenance.

Depending on your organization, you would first break it down into five to seven major systems. Then you would list the component parts for each system. Every year you would prioritize two to three components of each system for focused improvements. Here is an example:

1. You identify quality as a key system in your organization.
2. Your top three priorities in quality are product specifications, data collection, and final inspection.
3. You identify what "success" looks like for each of these priorities.
4. You assign a champion and timeline for each of these priorities.
5. You identify a means of evaluating progress on these projects.

You now have a systems plan for the coming year(s)!

F. Teams

Your organizational plan should include a list of major teams within the organization and their primary roles. It is often beneficial to indicate representation on the top few teams by position, rather than by individual.

Many businesses pay "lip service" to teams, but few put any real thought into who gets on them. One issue that is rarely addressed is that at different times in an organization's life, different types of teams are necessary.

Choosing Team Members

Looking back at the systems discussion above, who should be on a team to develop product specifications for the manufacturing process? Should the sales person be on that team? Probably! At least initially, a cross-functional team of sales, production, quality, and costing should be on that team. If you want to be really creative and effective, try including someone from a customer's company on that team!

In general, the broader the implications of the project, the more cross-functional the team should be. Who should be on a team that looks at scheduling issues in the production process? That **may** be a more function-based team, meaning people from throughout the production facility participate.

These are key decisions that should not be taken lightly! When to start a team, who should be on it, what its primary role should be, and when to end it are all critical management decisions that often get neglected. In particular, there are a few key things that should be considered in deciding who should be on a team:

- Individuals with similar levels of "power" representing the primary systems impacted
- Individuals with a variety of team skills
- In large groups (more than four) you need at least one person with each of the following four personality types:

  (1) A person who really likes numbers and has good analytical skills
  (2) A person who is strongly task-oriented, who keeps the team making progress
  (3) A person who has high people skills, and pays attention to the input and needs of individuals
  (4) A person who stays focused on the end result.

Note:
People generally assume that these four skill sets should reside in one person (the boss), and they all rarely do. The benefits of a team are that you can identify individuals with strong skills in these areas, and be sure you have them on your team (and complement the boss's strengths). Sometimes, especially in small companies, you have very few individuals with a particular skill set. Generally this means that when you identify the person with that unique skill (e.g., analytical), you want to make the most of their skill and include them on many teams.

Meeting Management

In many companies leaders spend as much as 80 percent of their time in meetings. Interestingly, these individuals are reporting that as much as half of this time is wasted. Given the cost and importance of leadership, it is not hard to predict that significant benefits could be gained by conducting more effective meetings. Here are some simple basics that everyone can keep in mind:

1. What is the dominant role of the team? Is it to share information, make decisions, evaluate progress, or explore new ideas?

2. Who are the members of the team? Are any members redundant, and is anyone missing that should be included? Does everyone have equal power on the team?
3. If the team has decision-making power, how does it vote? By consensus or majority?

4. Have some simple guidelines—including behavioral guidelines—for ground rules for the team:

- Who are the members and under what conditions can a member bring a guest?
- How do you decide to reschedule rather than meet (i.e., individuals are missing)?
- Agee to start and end on time!
- Make attendance a priority and focus on the meeting (don't do paperwork!)
- Agree to speak the truth without blame or judgment (Say, "I feel stressed," rather

than "Bob's a jerk.")
- Agree to pay attention to what matters most
- Agree to stay open to new possibilities and others' ideas.

5. Create an agenda for each meeting in advance, with end desired results and anticipated times each item will take.

6. Create a document with champions and timelines that tracks any actions coming out of the meeting. Also track any decisions made in the meeting for future reference. Save these documents in a common location, available to all members. Review the most recent document at the beginning of each meeting to hold people accountable for promised actions.

G. Human Resources Plan

The basis of the human resources plan is what the company agrees to do for the individual, and what the individual agrees to do for the company. These two agreements are captured in the organizational plan in the form of written employee job descriptions and the employee handbook.

Job Descriptions

The agreement between the employee and the employer as to what the employee is providing the company is called the job description. Every employee should have a job description, and each job description should include the following:

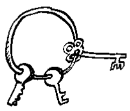
- Job title
- Overall purpose of job
- Description of the individual's primary responsibilities and estimate of percentage of time spent on each
- A description of what "success" looks like for each responsibility
- List of sample tasks that meet those responsibilities
- List of basic job skill requirements (e.g., education).

Employee Handbook

In general the company agrees to provide at least the following to all employees:

- A safe job environment
- Wages
- Benefits.

The employee handbook is a summary of what the company agrees to provide the employee and its policies in regard to certain behaviors. Specifically, the employee handbook includes the company vision, mission, values, and ground rules. It also provides a description of the company benefits, any reporting activities required by the organization, a schedule or discussion of the performance review process, publications, or notifications required by law, a discussion of company policies (e.g., hiring, firing, donations), and a communications plan for any employee problems or concerns. Every employee in the organization should receive a copy of the handbook. Supervisors should review it with all employees on a regular basis.



Notes:

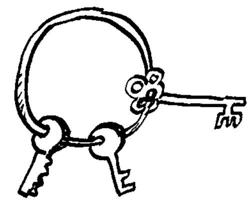
The business plan includes either all of the other plans or parts of each plan specific to need, e.g., equipment purchase.

The Planning Pyramid

Part VIII.

Creating a Business Plan

(What do they need to know?)



In this section we will give a few comments to supplement the example of a business plan provided in Appendix B. This example is designed for a particular industry, but careful review should provide ideas on how a firm could fit its own detail into the format.

The primary difference between the business plan and the plans already discussed in this publication is that the business plan is generally designed to be read by someone outside the day-to-day operation of the company, for example your investors or your banker. A business plan can include **all or parts** of the other plans. The level of detail in a business plan depends on the specific reason for, and the intended audience of, the plan.

In general a business plan includes the following sections:

A. Executive Summary
B. Introduction
C. Industry Overview
D. Company Description
E. Strategic Plan (or elements of it)
F. Marketing Plan (or elements of it)
G. Operating Plan (or elements of it)
H. Financial Plan (or elements of it)
I. Organizational Plan (or elements of it)
J. Limitations.

Banks often require business plans

A. Executive Summary

The executive summary is a crucial part of your business plan! It should be written **last**, and should summarize the "heart" of what the entire plan is about. The summary should give enough detail to arouse the reader's interest, but it also should be concise enough to be read in 5-10 minutes. The summary should include these major components:

- Company name and location (include any significant benefits of the location!)
- Descriptions of the industry (brief)
- Purpose of the business plan
- Description of the product (service)
- Description of the market (include projections)

- Financial projections
- Finance amount sought
- Payback period
- Goals and objectives of the company
- Marketing strategies to achieve goals
- Company expertise (management's as well)
- Impacts on community or region or both.

Throughout this summary you should emphasize your firm's successful characteristics wherever possible, for example:

- *Wood-N-Stuff is the largest manufacturer of wooden playground equipment in the state of Minnesota.*

- *Cabinets-R-Us boasts the largest selection of cherry cabinets in the United States.*

- *Last year Michigan Superior Distribution had the highest profit margins in its 80-year history.*

B. Introduction

As its name implies, in the introduction you simply acquaint the reader with your company, your industry, and your needs. The introduction gives the reader an idea of what to expect in the balance of the plan. This section should also include at least the following three topics:

1. Purpose of the business, including …
    - Vision and mission statement
    - General description of the company
    - General description of the product or service
    - Company goals.

2. Broad overview of the industry, including …
    - General description of the industry
    - General description of the market
    - Brief discussion of the competition.

3. Financial summary, including …
    - Description of funding sought and its use
    - Method(s) of financing
    - Financial goals.

C. Industry Overview

You should provide your readers with a detailed description of your industry. Remember, this plan is for those outside your company, so the better these people are informed, the more likely they are to support your endeavors. Utilize university extension faculty, industry association staff, and local libraries to supplement your company's direct knowledge of your industry. You would be surprised at how much detail is out there, if you only look. This information is extremely important if you are applying for financing. The better you do your homework, the more likely financiers will be impressed. Remember to include …

- The history of your industry, how it developed, its current size and makeup, factors that have led to its growth, and a description of how your company developed in this context.
- Trends within your industry, areas of growth, and current industry-wide research and development (R&D) efforts.

D. Company Description

Under company description you provide readers with more details of your company. Remember, to a great degree a business plan is a form of advertising. You are trying to convince someone to do something, so an honest and comprehensive presentation is important. It may be valuable to brainstorm your attributes with personnel inside and outside the company to ensure completeness. (Examples of outside personnel are vendors and customers.) Be sure to include key success factors, such as answers to the following:

- How do you differentiate your company from the rest of the industry?
- What distinctive features do your products or services have?
- What are your competitive advantages?
- Do you conduct any R&D activities, and if so, in what areas?

You may also want to include key company segmentation, targeting, and positioning strategies depending on the specific usage of the business plan. (See Part IV, Stage 1, of this guide for discussion of these activities.)

E. Strategic Plan

In this section, include suitable parts of the strategic plan you described above. The key difference between a general strategic plan and the strategic plan portion of a business plan often is in the relevant time period. As noted earlier, separate strategic plans tend to be long term. Within the framework of the business plan, you should include only the strategic components relevant to the issue at hand. So, if the plan is for short-term financing of a purchase, you should include only those issues and strategies that affect the purchase and are relevant to that time period. For example, a strategy to begin plans to move to a new facility in 5 years need not necessarily be included in a business plan aimed at obtaining 3-year financing for a replacement machine.

F. Marketing Plan

Here you include the marketing information described in Part IV of this guide that is relevant to the purpose of the business plan. Since the business plan is often aimed at readers outside your organization, however, you will want to include a higher level of detail about your products and services than would otherwise seem necessary. In some cases banks may ask outside consultants to review your plans to be sure they are realistic. On the other hand, it may not be an expert reviewing your plans, so leave out the jargon and be concise. Be sure to include drawings, graphics, and pictures to facilitate understanding. Doing this is especially important if you are expanding internationally. Your marketing plan should include detailed descriptions of your products and the services you provided, including the following:

For your product …

- Important customer benefits
- Intended quality level
- Intended use
- Intended price/performance relationship
- How the product fits into your current product “portfolio”
- Technical developments involved
- Regulatory status, e.g., EPA requirements, if applicable, and current status
- Other considerations that influence the plan.

For the services you provide …

- Warranties
- Marketing support
- Technical support
- Any other “field” support you provide.

G. Operating Plan

Here you insert relevant portions of the operating plan developed in Part V of this guide. Again, you may need to add detail to clarify certain activities for the outside reader. For example: your operating plan may state you need to upgrade your "Weinig" moulder with an investment of $50,000. You would want to provide a more complete description of the "Weinig" for the outside reader.

H. Financial Plan

Here you insert relevant portions of the financial plan described in Part VI of this guide. In the business plan you may need either to add or to emphasize the specific indicators and ratios required by the funding agency if achieving capital is the purpose of the business plan. In general, it is a good idea to ask the funding agency what they want to see. Get a detailed list, then provide what they need—no more, no less.

I. Organizational Plan

In this section on the organizational plan, describe the structure of your company and include any anticipated changes (such as additional management personnel) as your company grows. Basically this section includes …

Formal structure of your company, including …

- Tax status
- Legal attributes.

Management team and staff

- Organizational chart
- List of key personnel (including Board of Directors!), and include their resumes in an appendix
- List of business advisors you use regularly and their specific skills.

Ownership of company

- List principle equity owners and their affiliation(s)
- Describe how owners are involved in management
- Describe any public funding.

J. Limitations

In this section, show the readers that you are realistic in your expectations, and that you are trying to anticipate what might go wrong. In this section you should discuss the impacts of …

- Changes in economic climate
- Adverse market trends
- Increased costs.

In addition, you should discuss the accuracy of your assumptions, and may want to project your company out 10 years to describe your long-term expectations.

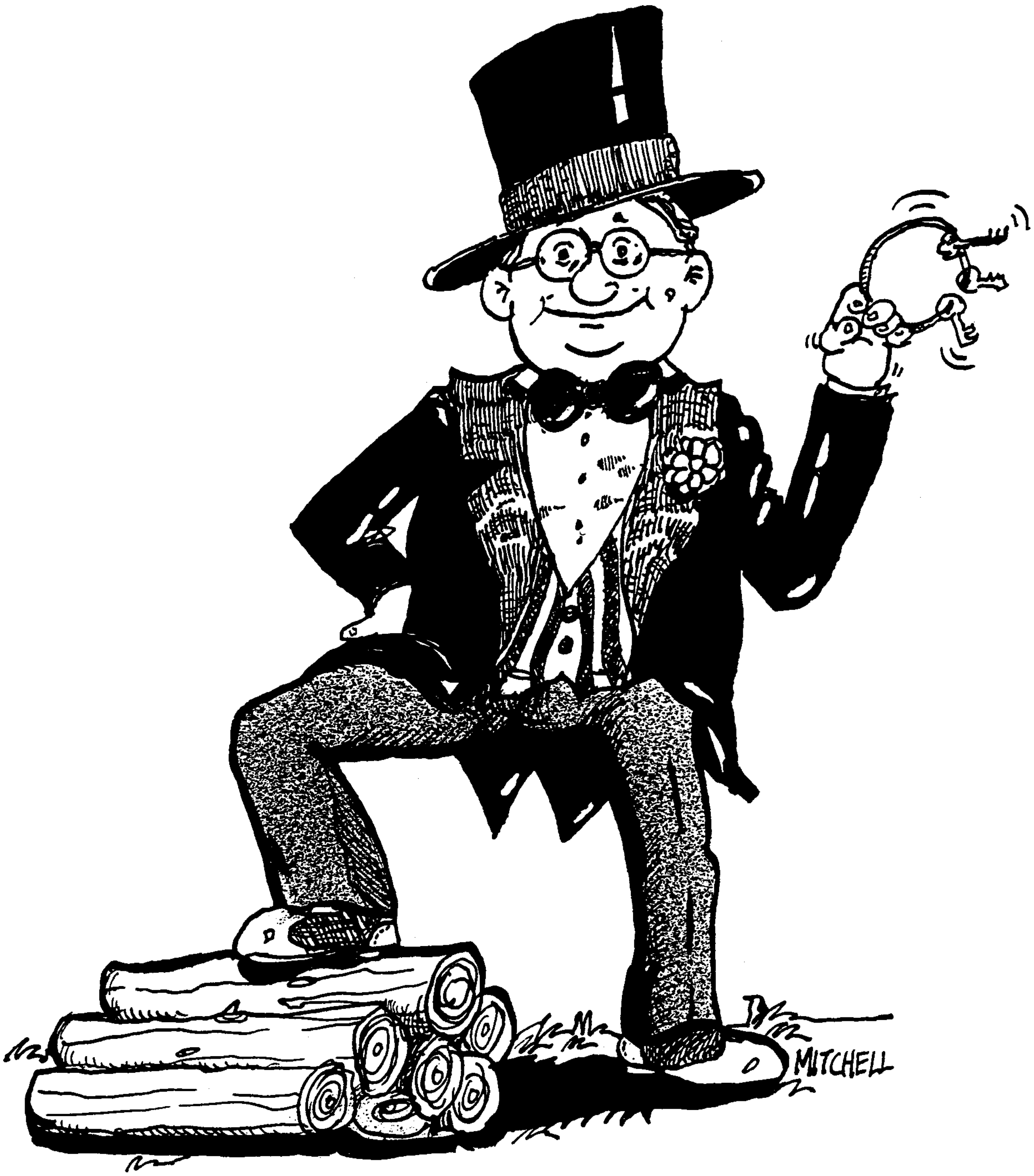
Additional Resources

Here are a couple of pointers if you want to check out additional sources of information on writing business plans.

First, an on-line search of "business plans" will produce dozens of "hits." Many of the on-line resources offer sample plans, software packages, and much more.

Second, your local library or bookstore is an excellent source of business planning information. Numerous books and other forms of printed material are readily available on writing business plans. The "References" section of this guide lists some titles you should find helpful.

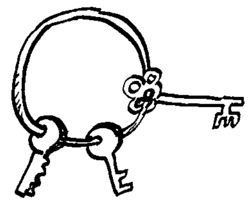
Third, be sure to contact your local Small Business Development Center or U.S. Small Business Administration for programs and assistance available in your area. These offices are quite helpful in getting your business started on the path to success. (You can find the office nearest you at *www.sba.gov*).



The keys to success involve a formal planning process.

Part IX.

Summary



The purpose of this guide is to assist you, the manager of a small and medium size wood products company, in making your business life a little easier, improving your chances of success, and maximizing your firm's capabilities. It is worth repeating that research has shown that a **formal planning process** is a key element in the success of wood products manufacturing companies, especially in regard to development of new products and new markets. The existence of formal, written plans allows firms to create strategies and programs to implement their ideas, and facilitates their ability to measure and control their results.

Remember, **Strategic Planning** is engaged in **creating the future**, rather than predicting the future. The support of top management is critical to the success of the planning effort. Although most innovative managers of wood products firms tend to think and act strategically, not all are particularly successful. Formal strategic planning increases the manager's chance of success.

The Marketing Plan is the blueprint for the construction of all marketing programs. It deals primarily with strategy as it relates to the company's marketing mix, often referred to as the four P's of marketing: **P**roduct attributes, **P**ricing strategies, **P**romotion strategies, and **P**lace (distribution methods). Remember that marketing planning concentrates narrowly on a firm's specific product, or market, or both.

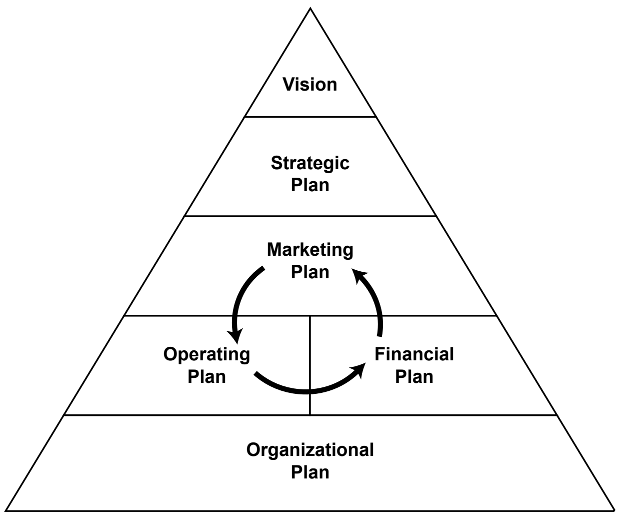
The **Operating Plan** says, given that we plan on selling "x" here is how we supply it, on time, on quality, and at best value.

The **Financial Plan** takes the sales numbers, the operational costs, sprinkles in overhead, taxes, and financing, and reports the results. The financial plan also tells you how you are doing. Over the course of the year you should regularly compare actual financials with plan numbers.

The **Organizational Plan** is all about how you organize and lead your people. This is the critical area! A poor plan, well implemented is much better than a great plan, poorly implemented.

The separate strategic, marketing, operating, financial, and organizational plans are designed primarily for internal company use, although stakeholders outside the firm can and should be involved at different stages of the creation of those plans. On the other hand, a **Business Plan** should be developed specifically with the stakeholder in mind, and usually for those outside the firm, such as bankers, potential partners, investors, and others your company is trying to influence. Keep in mind that a business plan is not only a comprehensive gathering of detailed information on your business (or potential business), but also a way of **monitoring** the business.

This guide, if used properly, should be viewed as a first step in your planning efforts. Additional information on the “plans” is available from textbooks, business magazines, workshops and seminars, trade organizations, and the Internet. The “References and Recommended Reading List” in this guide are excellent sources of additional information for individuals wanting more detailed assistance in their planning efforts.



The Planning Pyramid

There are several key points to remember in planning. First, the planning pyramid is very handy at telling you where to concentrate your efforts. If you are having a problem in any area, always look first at the next higher planning level on the pyramid. For example, if you are having a problem with your marketing, ask whether your core marketing strategies are really clear. If your production is struggling in some way, is your marketing plan clear (does everyone know what and how much you are trying to sell, and to whom).

Second, if there is one key area in which businesses tend to fail, it is in having a clear vision. Many firms feel that making clear choices is constraining, eliminates flexibility, and reduces ability to change to new market conditions. In reality a clear vision allows you to do all those things, but in one unified direction.

Third, getting your whole company involved in planning is critical. Let your operations teams help build operations plans, human resources lead organizational plans, and so on. The more people who are involved in the plan, the more people you have involved in achieving the outcome. Besides, always remember that **it is the planning process that holds the key to success, rather than the plan itself**.

Remember, your plans are not set in stone but are, to some extent, a work in process. This doesn’t mean you are continually changing your goals and objectives; however, you should be monitoring your progress toward your goals and adjusting your strategies and programs to assure that you meet or exceed your objectives.

Lastly, the plan (or plans) you develop are dynamic, and should be updated periodically to be of the most benefit to your firm. Consider the old saying:

Those who fail to plan, plan to fail.

Good Luck!

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Appendix A

How to Conduct a Simple Break-Even Analysis

This information is adapted from Paulson and Layton (1995).

One way to get a rough idea of whether your wood products business can make any money is to do a **break-even analysis**. Simply stated, a break-even analysis tells you how much you have to make in dollars or products sold in order to cover all of your costs. Obviously, your goal is to do much better than that, but let's start first with ensuring you can at least pay for the products or services to be produced.

A break-even analysis takes into consideration three pieces of information …

1. The average sale price of what you sell. Simply estimate how much your typical sale will be.
2. The average cost of what you sell, or how much it costs to produce your typical sale.
3. Your total fixed costs per year, which would be your total expenses for the year that you have to pay no matter how much you sell. These costs include things like rent, employee salaries, and utilities.

Your break-even price in dollars is calculated in the following way:

Fixed costs/(1 – average cost of products/ average price of products)

For example, if you have annual fixed costs of $30,000 and sell red oak coat racks that are priced at an average of $100 and cost you $20, your break-even is $37,500.

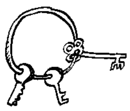
$30,000/(1 – 20/100) = $30,000/0.8 = $37,500

This means that you have to have sales of $37,500 a year just for the business to break even. To calculate the number of coat racks you have to sell, just divide $37,500 by the price of the coat rack, which is $100.

$37,500/100 = 37.5 or 38 units (coat racks)

These numbers by themselves may mean nothing to you, but if you put in some estimates of your average sales price, cost, and total fixed costs, you'll see what you can expect. Once you figure out the break-even in dollars and units, think about whether those figures seem high, low, or reasonable.

Break-Even Analysis: A calculation of how much money you need to make to cover your basic costs of doing business. Above that, you're profitable!



Notes:

Appendix B

Sample Business Plan for Frank's Frames

Executive Summary

Frank's Frames is a 75-year-old wood products business located 100 miles west of Chicago. Frank's specializes in providing high quality picture frames and components to custom framing shops and large print framers in the Midwest. The picture frame segment is part of a $5 billion wood component market in North America. Over the past 75 years Frank's has shown consistent profits and high customer loyalty. A great deal of this success can be attributed to Frank's proactive approach to customer service and a willingness to retool their business to meet the changing needs of the marketplace.

Frank's Frames is a mature business in a very mature industry. It seeks to achieve strong growth in sales and profits in two ways. The first is by increasing its emphasis on customer service. The second is by changing operational priorities from a single focus on standardization and operating efficiencies to a broader focus that includes development of a wider variety of products and an increased capacity for customization. To accomplish this transition, Frank's expects to increase capital spending to $467,000 for the coming year, nearly triple that of the previous year. The dominant expenditure results from the plan to completely redo the layout of the existing main facility, providing the capacity for significant volume growth and the capability to provide a wider array of services to the marketplace. The ultimate goal of this process is a major reduction in overhead as a percentage of sales, thus increasing Frank's competitiveness in the marketplace.

Frank's is seeking additional funding in the amount of $100,000 from the bank to accomplish this transition. Frank's goal is to increase its credit line to fund its expansion with minimal impact on cash flow. Frank's expects to finance the balance of the capital spending both internally, from retained earnings and operational income, and externally through a combination of existing loan agreements and vendor financing packages.

Introduction

Frank Bocconi opened his doors for business on January 2, 1929. Operating first as a sawmill, and then as a combination sawmill and drying operation, Frank survived the economic hardships of the Great Depression and World War II and built a flourishing family business. In the 1950s Frank added a retail lumberyard to the sawing and drying operations.

By 1960 the company was "doing OK" as Frank often noted, but environmental pressures were forcing him to look at alternative means of disposing of his wood waste. Instead of burning the narrow waste trimmings and edgings, Frank investigated many value-added manufacturing options. Through trial and error, hardwood mouldings, particularly picture frame stock, became the firm's primary specialty product.

In 1970 Frank stepped down as company president and turned the day-to-day operations over to his son, Dominic. Over the next three decades Dominic expanded the picture-frame manufacturing center of the business and downsized (and then eliminated) the sawmill and lumberyard components. Today, over 75 years after sawing their first log, Frank's Frames is the regional leader in providing pre-finished solid wood mouldings and assembled frames to the custom framing and large-print frame market.

Frank's vision: To be the premier frame manufacturer in North America by producing the highest quality product and setting the industry standard for lead times and reliability. Frank's Frames is a mature business in a very mature industry, and envisions achieving success through a core approach of emphasizing customer service and moving away from a focus on standardization and efficiencies toward increased diversity of products and increased customization.

Frank's mission: Frank's Frames is dedicated to excellence in the manufacture of mouldings and assembled parts to primarily custom and large-print framing shops. To ensure success, we produce a high quality product and provide customer service that is unparalleled in the industry. We accomplish our mission through innovation, teamwork, and respect for our employees, customers, and suppliers, and by being a community leader and responsible corporate citizen.

Frank's Frames expects to increase sales by about 10 percent over the next 2 years, and increase net profits by almost a third, while repositioning the company for significant future growth. To accomplish this growth a new process flow (layout) is needed to reduce congestion in the shipping, receiving, and inventory storage areas. Additional funding is being sought to redo the layout of the existing facility.

Industry Overview

Frank's Frames is part of a manufacturing industry segment that has evolved over the past 100 years. In the early 20th century the wood mouldings and assembled frames business primarily produced a product described as "rough dimension stock." Rough dimension stock can be characterized as "lumber manufactured from a log without any planing or shaping to eliminate the rough surface of the board." Today, the industry that produces mouldings and precut picture frame parts is part of a larger group of manufacturers described as "wood component manufacturers."

"Wood components" refer to the individual wood parts or pieces that are eventually assembled to produce a final product such as an oak chair or a cherry picture frame. Wood component manufacturers produce an assortment of value-added semi- and fully-machined wood parts and pieces for a variety of applications including cabinetry, furniture, flooring, staircases, store fixtures, and mouldings and millwork. These products are typically produced from kiln-dried lumber that is planed to produce a smooth surface and consistent thickness, cut to exact lengths and widths, and often shipped to another plant for final assembly.

Today, the annual production of the wood component industry is $5 billion for the United States and Canada. In 2000, there were 1,600 wood component companies in North America. Four years later, only 1,300 companies remained according to the U.S. Census of Manufacturers and various commercial directories. In 2005, average-sales per company are approximately $2 million; Frank's Frames is on the high-end of the industry with sales of approximately $12 million. Industry-wide sales per employee average about $150,000, which is up from $105,000 in 2002. Sales per employee at Frank's Frames is over $175,000 per employee.

Rising costs of doing business have caused "finished" wood products manufacturers (including custom frame shops as an example) to look for cost-effective component suppliers to improve their competitive position. Reliable, just-in-time delivery of components allows finished wood products manufacturers and assemblers to lower their inventories and increase their turnover rates, resulting in higher profit margins. To meet this increased demand for just-in-time parts, wood component manufacturers have expanded their capabilities and invested in new equipment.

Many firms in the industry have adopted LEAN manufacturing techniques to streamline their production, lower costs, and reduce waste. In addition, computerized optimizing saws, computer numerical control (CNC) machines, and other new machining processes have allowed wood component manufacturers to better utilize their valuable raw materials by producing high-quality precision components while minimizing waste.

Outsourcing by finished wood product manufacturers is the main driver in the demand for wood components including mouldings (wood picture frames). The challenge in 2005 is that many companies are beginning to outsource their wood components from offshore suppliers. For wood component manufacturers such as Frank's Frames, there is increased competition from cheap imports on the high-volume commodity products. Also, wood substitutes, such as plastics and inexpensive composites, are becoming more popular and taking market share from traditional wood suppliers. In addition, consumers are demanding ready access to a wider variety of items and increased customization to their specific needs.

A study by a leading wood manufacturing association found that since 1985, customized decorative and specialty products such as gifts, novelties and accessories has grown well. Frank's Frames fits into this specialty product manufacturing category and has demonstrated exceptional growth—exceeding industry averages for this time period and market segment.

Company Description

Frank's Frames is the regional leader in providing prefinished solid wood mouldings and assembled frames to the custom framing and large print frame market. Since the company's founding in 1929, customer service has been a driving force in the success of the company. Frank's Frames is well known throughout the industry for its exceptional product quality and short lead times.

Frank's Frames currently employs 68 talented and hardworking individuals operating out of a 100,000-square-foot facility in rural Illinois, 100 miles west of Chicago. Employee turnover at Frank's Frames is quite low with nearly half of the current workforce being with the company for over 20 years. Profit sharing, bonus and incentive plans, innovative worker training, and a managerial "open door" policy have enabled the company to recruit and retain highly skilled workers. The current company management team of seven individuals started as entry-level employees and have a combined 200 years experience.

Frank's Frames has a straightforward approach to product manufacture that can be summarized in six steps:

1. Purchase kiln-dried hardwood lumber from reputable mills and distributors in the Midwest and Lakes States;

2. Plane, rip, chop, and otherwise "process" the lumber into mouldings of various lengths, widths, and thicknesses;

3. Add "profiles" to mouldings at different machining centers;

4. Spray or veneer, or spray and veneer wrap mouldings, as appropriate;

5. Ship mouldings to custom frame shops or assemble mouldings into finished frames and ship to large-print frame markets; and

6. Provide excellent service and follow-up to all customers, large and small.

Frank's Frames has two competitive advantages that it capitalizes on—raw materials and markets. Frank's manufacturing plant is located in a region that has an excellent supply of hardwood timber and numerous sawmills and dry kilns that provide a reliable flow of lumber. Frank's Frames is also geographically situated close to major Midwest markets, primarily Chicago, St. Louis, Minneapolis, Milwaukee, Kansas City, and Detroit. Both of these advantages provide Frank's Frames an edge over east and west coast competitors.

Strategic Plan

Critical issues

Through a corporate brainstorming session, which was part of a strategic planning exercise for Frank's Frames, nine issues were identified that will impact the organization significantly in the next few years. These issues were prioritized, and five were identified as critical for inclusion in the current business planning process:

Issue 1: Global competition is bringing new competitors into the market with products that are both low in cost and high in quality.

Issue 2: Rapid growth is placing stress on both the capacity and capability of the organization's management team.

Issue 3: Local labor rates have been climbing, and the total cost per employee is at record levels.

Issue 4: The business has grown beyond the physical space available in the current facility.

Issue 5: Inexpensive composite materials, e.g., foil-wrapped plastics, are taking an increasing share of the picture frame market.

Strategies

To address each issue, corporate strategies were identified:

Global Competition

- Strategy 1: Become so critical to our customer's success that we cannot be replaced. (Championed by Marketing Manager)
- Strategy 2: Proactively manage our entire marketing channel, from our vendors through our customers to the degree that total channel efficiency is significantly increased and total cost is significantly decreased. (Championed by Operations Manager)

Growth Impacts on Leadership

- Strategy 1: Identify and hire a highly skilled leader from outside the company with broad enough experience to fill a variety of positions. (Championed by President)
- Strategy 2: Cross train the leader in each top position such that they are capable to perform successfully in at least one other position. (Championed by Human Resource Manager.)

High Labor Costs

- Strategy 1: Cross train all shop employees to enable them to perform a significantly wider variety of tasks. (Co-Championed by Operations Manager and Human Resource Manager)
- Strategy 2: Seek new value-added processing capability that requires higher skill sets from our employees. (Championed by Operations Manager)
- Strategy 3: Seek new customers with complex needs that require high value added, high service, and high levels of flexibility. (Championed by Marketing Manager)

Room for Expansion

- Strategy 1: Design a new building to be built adjacent to the current one. (Championed by Finance Manager: Outsource)
- Strategy 2: Redo the layout of the current facility such that at least 20,000 square feet of free space is created. (Championed by Operations Manager)

Growth in Composite Frame Business

- Strategy 1: Identify and strategically align with a manufacturer of plastic molded or extruded picture frame material compatible with current product line in order to broaden product offering. (Leadership Team)
- Strategy 2: Identify and develop foil-wrapping capabilities on both wood and plastic mouldings. (Championed by Operations Manager)

Marketing Plan

<u>Current situation</u>

Product: Frank's Frames produces prefinished solid wood mouldings for sale as random lineal, prepacked lengths, precut parts, and as assembled frames. Frank's frames are known to be very high quality and have the shortest lead times in the industry (1 week); a wide selection of solid wood profiles is available. Custom profiles and finishes are offered on a longer lead-time.

Distribution: These materials are sold primarily direct to custom framing shops and to large-print framers who supply the various catalogue markets. The sales staff is made up of two outside sales representatives and two inside customer service representatives. Each of the two outside representatives serves a different segment of the market (one serves custom shops, and one serves the print framers), while the two customer-service representatives are cross-trained to assist any customer.

Pricing: Frank's Frames are priced at the high end of a very competitive marketplace. The firm is able to receive a premium due to their high level of service. Custom profiles are offered at a 10% mark-up over the nearest profile with the same finish. Custom finishes are offered at a flat $250 mix-and-match fee.

Promotion: The dominant sales approach is personal selling with sell sheets as support literature. These sell sheets are four-color sheets that are carefully produced to demonstrate color accuracy of end products. Frank's also provides corner samples and profile sample pieces to select customers. Frank's has also developed a profile book that is available for customer's use in ordering materials. Frank's does not advertise. The company has positioned itself as "Best in Class" and has 75 years of experience to back up that claim. New customers have been attained pre-dominantly through word-of-mouth. Virtually all customers are within a 500-mile radius of Frank's factory.

SWOT (Strengths, Weaknesses, Opportunities, and Threats)
Strengths: Frank's Frames has a complement of highly skilled and experienced employees. Several managers have over 20 years experience at Frank's. The shipping and operations systems are highly efficient and reliable, with on-time delivery at 99.85 percent and quality performance at 98.5 percent (very high for a prefinished product). The operations team utilizes a variety of low-capacity highly flexible equipment to meet needs. Frank's was one of the first frame manufacturers to implement veneer wrapping a number of years ago, and is expert enough that the team leader teaches a class on veneer wrapping at a local technical college. Frank's customers are extremely loyal and those customers are growing rapidly.

Weaknesses: Frank's has no experience sourcing wood from new suppliers. Nearly all wood vendors have been supplying us for over 10 years. This gives us excellent relationships, but a narrow view of the world. Frank's also has no foil-wrapping capacity, which is a dramatically growing segment of the market. We also do not have the ability to emboss mouldings with complex patterns. Frank's product mix is the narrowest of all our competitors. We do what we do very well, but we don't offer our clients much variety. Most of Frank's customers also buy other frame products from other vendors.

Opportunities: Because of our excellent service, and the fact our customers are very loyal, we have the opportunity to broaden our sales base with existing customers by increasing the number and type of product lines offered. We also have the ability to increase value-added processing for some customers by adding the glass and backing to our assembled frames. In addition, with new technologies, it currently would be much easier to sell and service to a new, adjacent region than ever before. We also have the opportunity to expand the substrate base beyond wood, while utilizing existing skill sets to best advantage.

Threats: The primary threats come from low cost foreign competition and the increasing substitution of composite materials for wood. In addition, by having narrow product offerings, we are under constant pressure from competitors, who "share" our customers and who are always looking to expand their share of those customers' business. Market share "nibbling" is a problem with some customers.

Marketing goals
The sales and marketing team has identified four primary goals for the upcoming year:

- Add one new product line with sales in excess of $100,000 for the year, by year-end.
- Increase overall sales by 5 percent over the current year.
- Increase value-added service by implementing vendor managed inventory (VMI) and just-in-time manufacture (JIT) for three key customers.
- Add one major new customer (future potential in excess of $250,000 per year) in a new region.

Core marketing strategies
The leadership team and the sales and marketing teams have identified the following key strategies:

- Strategically align with a plastic picture frame material manufacturer to include their products in Frank's product offerings.
- Add one new customer service representative to help increase sales and to facilitate JIT and VMI.
- Attend trade shows in a new region to identify best target geographic location for expansion and to identify five potential new customers in that region.

<u>Actions to implement strategies</u>

The following action items were identified by the sales and marketing team for implementing the strategies and achieving the goals:

- Marketing budget for the year will be increased by 10 percent (versus sales growth of 5 percent) to reflect expansion of both territory and product line, and to facilitate tightening our relationship with key customers.

- Members of the sales and marketing team will attend three trade shows, one each in February, March, and April, to identify by May 1 the plastic product line that is the best match to supplement the current line of solid wood products. The plastic lineals must fit well within Frank's current positioning strategy and hit selling price points between 20 and 30 cents per lineal foot.

- A new customer service person must be identified, hired, and trained by February 15th.

- The sales team will identify 5 to 10 of their existing customers as potential participants in VMI trial implementations. The initial group needs to be identified by January 15th, with selection of the final three by April 1st.

- By July 1st, the sales staff is to attend a trade show identified to have participants from the new geographic region targeted for expansion. At this trade show 5 to 10 potential new customers will be identified that fit the criteria for Frank's targeting and positioning strategy.

- The marketing team will develop the marketing mix (product descriptions, promotional plan, distribution needs, and pricing plan) for the new plastic product line by May 30th.

- Due to increasing custom sales, the sales team will explore new pricing structure with one customer as a test. Standard product prices will be reduced by 2 percent on average, based on actual costs, and custom pricing will be increased by 30 to 50 percent (market priced).

Operating Plan

<u>Description of plant and facilities</u>

Frank's Frames operates out of a single, 100,000 square foot facility located in a rural community about 100 miles due west of Chicago. The facility is currently in the third year of a 5-year lease. The site includes 15 additional acres of undeveloped land adjacent to facility. There is ample parking for growth in number of employees. The recently upgraded dust collection system with spark arrestors and a new compressed air system have made the facility operate more effectively than ever. Frank's is stretching the limits of the current space, and the leadership team has begun investigating options for expansion. The building owners have indicated an interest and willingness either to add on to the existing facility or to build a larger one on the adjacent land. Currently, 12,000 square feet are used as office space, 63,000 square feet are used for manufacturing, and 25,000 square feet are used for shipping and receiving. Figure 1 is a sketch of the current building layout.

Description of equipment

Frank's equipment is meticulously maintained and, although it is not cutting edge, represents the best quality proven technology available. Since 2000 the operations team has replaced all high capacity work centers with multiple smaller, more flexible pieces of equipment. In addition, 3 years ago the firm hired a highly skilled and experienced scheduler to coordinate production activities—with great success. Most systems are currently computerized and inventory is tracked on-line. Dominic, the owner of the company, has been very successful through the careful purchasing of lumber, and putting a significant number of resources into yield and process improvements at the rip and chop saws. His father founded the company as a traditional lumber company, and transitioned into picture frames 20 years ago as a way to use up short narrow rips. Dominic was very hesitant to replace the high efficiency moulders with low-speed ones a few years ago, but wanted to give the new operations manager at the time some leeway to make his own decisions. He has been very surprised, and pleased, at how smoothly and successfully the change went.

Currently the company has this equipment:

- High speed optimizing rip saw
- High speed optimizing chop saw
- Three low-speed unjointed moulders
- Three spray lines, two with in-line profile sanders
- One veneer wrapper
- Various computerized chop saws, miter saws, assembly tables, and equipment.

Quality evaluations are done in state-of-the-art inspection area, which includes this additional equipment:

- Special lighting
- Laser measurement systems
- Optical comparator for evaluating profiles
- Wood guide sticks (character and color by species)
- Finish guide sticks per species (Go or No-go)
- Specification sheets per customer.

Operating goals

The leadership and operations teams have identified the following goals for the coming year:

- Identify 20,000 square feet of free space for expansion
- Identify paper and foil-wrapping equipment
- Create operational plan for new plastic line
- Increase average dollars per employee by 10 percent
- Maintain quality and on-time performance during transition.

Core operating strategies

The operations team developed the following core strategies:

- Develop LEAN expertise within the organization to facilitate continuous improvement
- Refocus operational activities from the traditional efficiency-yield model (rip-chop processes) to the value-added processes (finishing, assembly)
- Cross train all employees and improve process flow such that the new product line can be added without adding employees
- Reduce total inventory by 30 percent, and inventory locations by 50 percent to improve job-costing capabilities.

Actions to implement strategies

1. Development of LEAN expertise
   - The Operations manager and all three assistant production managers (APM) will be sent to a 2-day LEAN training workshop in February.
   - These managers will then be sent individually to a weeklong LEAN event at another company (e.g., Kaizan blitz), one each in March, April, May, and June.
   - Three cross-functional LEAN teams will be developed at the facility led by each of the APM's, and will address improvements identified and prioritized by the leadership team.

2. Focus on value-added
   - Review operational measurement systems to manage by sales value added, rather than costs saved
   - Evaluate the ability to purchase "rips" instead of lumber and the impact on inventory, process-flow, and total cost
   - Add custom shop capabilities, to increase flexibility

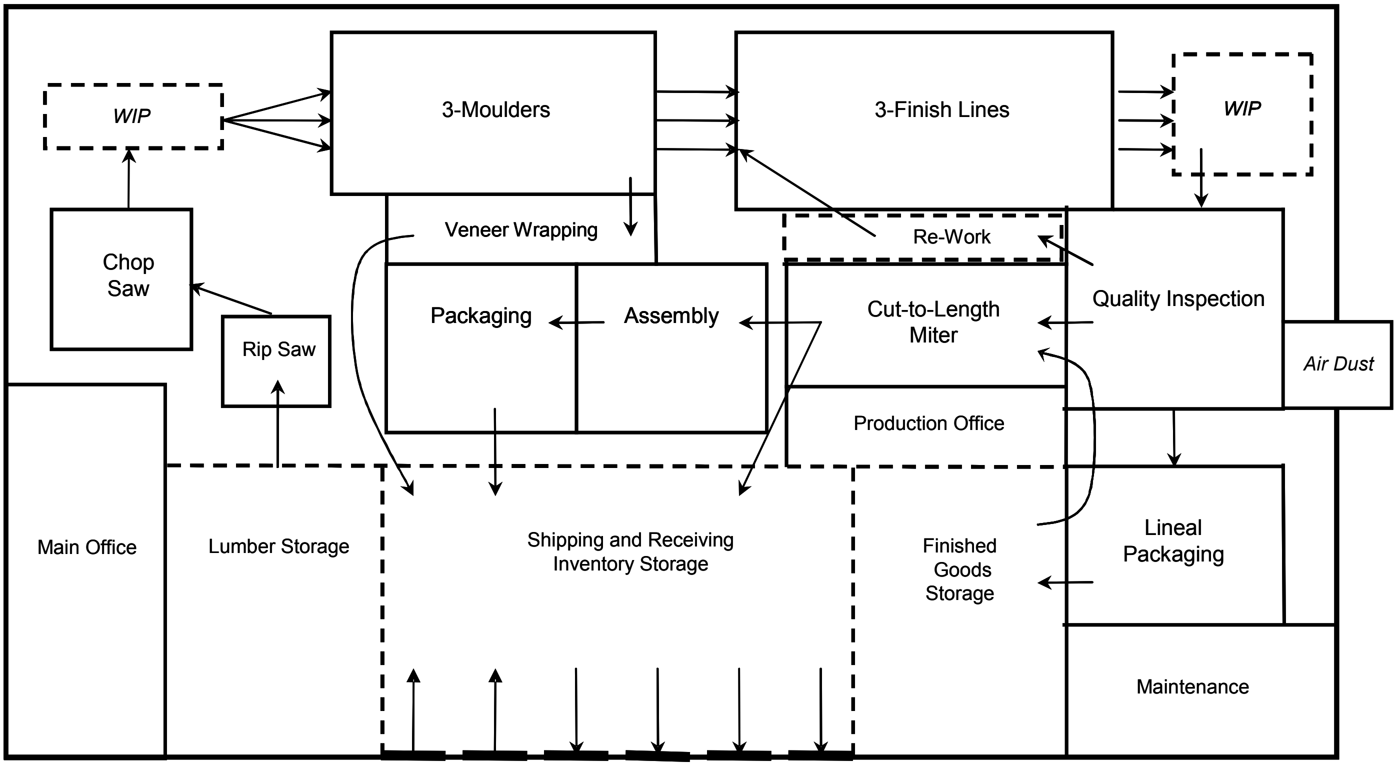
3. Cross-train employees
   - Cross train all operators to operate all machinery
   - Operators are to become responsible for maintenance of their primary equipment (partner with maintenance)
   - Maintenance workers are to be trained to operate all major equipment
   - Cross train all employees to be fully interchangeable within their work team

4. Inventory improvements and process flow
   A re-layout of equipment and materials in the plant was determined to be a focal point of improvements in both inventory and process flow.

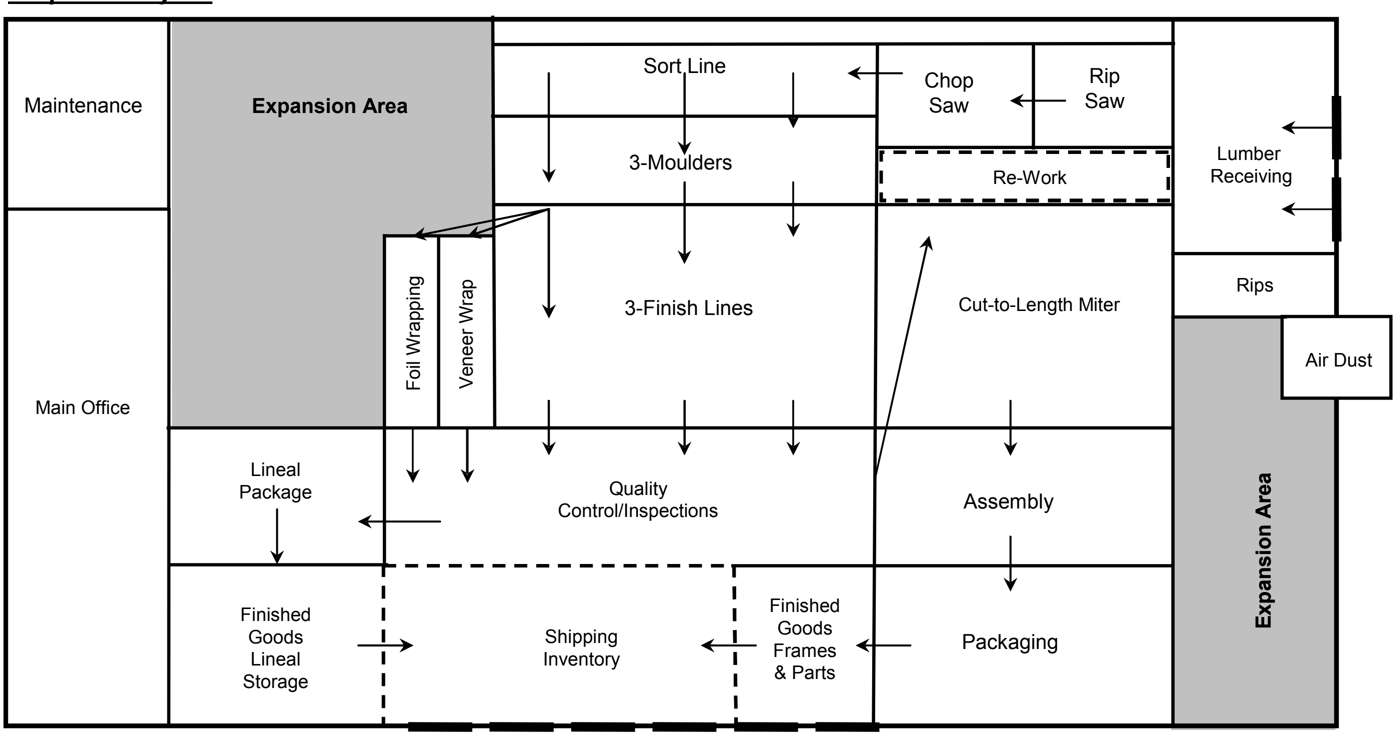
Discussion: The operations team has specifically proposed that a re-layout of the existing facility, with the addition of two new doors, could potentially eliminate the need for additional space. The proposed re-layout eliminates the congestion caused by the shipping and receiving in the same area as inventory storage, and the need to maintain alleys for material to move back and forth across the facility. The capital costs for this layout are expected to be about $100,000, and—with proper planning—it could be implemented during the December holidays of next winter. To address this and ensure that all issues are considered, the operations team has proposed the following schedule:

- Core concept of new layout adopted by leadership team by January 30th
- Operations team to prioritize constraints to relocation of equipment and materials, and assign to individual teams by February 28th
- Individual production teams, inventory team, purchasing, and maintenance to develop action list, costs, and timeline for move by June 1st
- Go, No-go decision to be made by leadership team by July 1st
- Any and all major facility improvements to be made by Nov 1st
- If a re-layout is decided on, it is to be accomplished during the last 2 weeks of December.
- If a re-layout is not determined to be feasible, a new facility design team is to be developed in August.

Current Layout



Proposed Layout



<u>Operational targets for the year (SQSP)</u>

Safety
- Reportable incidents—decrease by 10 percent

Quality
- Internal—maintain previous year's performance
- External—maintain previous year's performance

Service
- On-time at customer—maintain previous year's performance
- On-time internal—maintain previous year's performance

Productivity
- Dollars per employee—increase by 10 percent
- Total dollars through facility:
  - Shift—increase by 10 percent (reduce overtime)
  - Week—increase by 5 percent
  - Year—increase by 5 percent
- Scrap (dumpsters)—decrease by 5 percent
- Yield at ripsaw—increase by 1 percent
- Yield at chop-saw—maintain
- Yield at moulder—maintain

Inventory
- Total raw—maintain
- Total work in progress (WIP)—decrease by 10 percent
- Total Finished Goods (FG)—decrease by 5 percent.

Detailed action plan by production team is available on request (includes more specific goals).

Financials

Capital requirements for the year

The operations team has identified the following capital needs for next year. This includes a budget for the redesign which is still being evaluated, and reflects an increase of about 288 percent over the current year, and 42 percent over the previous year.

New forklift	$ 34,000
Conveyors and material handling	$ 12,500
Software upgrade (MRP module)	$ 7,500
Foil-wrapper and installation	$187,500
Miscellaneous moulder upgrades	$ 37,500
Sorting software for chop saw	$ 47,500
Computerized chop saw for cut-to-length	$ 4,700
Assembly tables	$ 7,700
Computers (office and production)	$ 25,000
Photocopier	$ 3,700
Total	$367,600
Re-layout estimate	$100,000
(Includes doors, rewiring, air, dust)	
Total	$467,600
Total last year	$162,262

Balance Sheet

FRANK'S FRAMES
Current year and previous year

	Current Yr	Previous Yr
Assets		
CURRENT ASSETS		
Cash	$1,013	$5,753
Accounts Receivable (less allowance for doubtful accounts of $12,000 in current yr and $10,000 in previous yr)	$867,936	$1,197,391
Inventories	$777,536	$646,258
Deferred Income taxes	$24,500	$18,500
Other current Assets	$19,567	$31,131
Total Current Assets	$1,690,552	$1,899,033
PROPERTY AND EQUIPMENT		
Property and equipment	$2,018,143	$1,855,882
Less: Accumulated Depreciation	$1,171,229	$999,857
Net Property and Equipment	$846,914	$5,856,025
Total Assets	$2,537,466	$2,755,058
Liabilities and Stockholders Equity		
CURRENT LIABILITIES		
Note Payable - Bank	$634,182	$916,850
Current Maturities of Long-Term Debt	$162,358	$155,817
Accounts Payable	$167,452	$188,187
Accrued Expenses	$252,129	$228,106
Income Taxes Payable	$33,813	$10,124
Total Current Liabilities	$1,249,933	$1,499,084
LONG-TERM DEBT, Net of Current Maturities	$320,957	$483,317
DEFERRED INCOME TAXES	$46,500	$27,500
Total Liabilities	$162,389	$2,009,900
STOCKHOLDERS' EQUITY		
Common Stock, $1 par value:	$5,705	$5,705
Retained Earnings	$914,372	$739,453
Total Stockholders' Equity	$920,077	$745,158
Total Liabilities and Stockholders' Equity	$2,537,466	$2,755,058

Income Statement

FRANK'S FRAMES
Current year and previous year

	Current Yr	Previous Yr
NET SALES	$12,014,956	$11,745,800
VARIABLE EXPENSES (Cost of Goods Sold)	$9,216,838	$8,997,283
Gross Profit	$2,798,119	$2,748,517
FIXED EXPENSES (Overhead)	$2,275,427	$2,203,345
Income From Operations	$522,693	$545,172
INTEREST EXPENSE	$129,817	$137,676
Income Before Provision For Taxes	$392,876	$407,496
PROVISION FOR INCOME TAXES	$157,150	$162,998
NET INCOME	$235,726	$244,498

Statement of Cash Flow

FRANK'S FRAMES
Current year and previous year

	Current Yr	Previous Yr
OPERATING ACTIVITIES		
Net Income	$235,726	$244,498
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	$171,372	$139,200
Deferred Income Taxes	$13,000	$900
Changes in Operating Assets and Liabilities:		
Accounts Receivable	-$131,278	-$85,097
Inventories	$329,455	$7,344
Other Current Assets	$11,564	-$4,774
Accounts Payable	-$20,735	-$30,344
Accrued Expenses	$24,023	$19,256
Income Taxes Payable	$23,689	$3,258
Net Cash Provided by Operating Activities	$656,806	$294,241
INVESTING ACTIVITIES		
Purchases of Property and Equipment	-$162,262	-$328,313
Net Cash Used in Investing Activities	-$162,262	-$328,313
FINANCING ACTIVITIES		
Net Proceeds (Payments) From Notes Payable - Bank	-$282,669	$164,922
Payments on Long-Term Debt	-$155,820	-$104,460
Net Cash Provided by (Used in) Financing Activities	-$438,488	$60,462
Net Increase (Decrease) In Cash	-$4,740	$5,753
Cash at Beginning of Year	$5,753	$0
Cash at End of Year	$1,013	$5,753

Five-Year Summary and Forecast

FRANK'S FRAMES

CATEGORY	2yrs Ago	Previous Yr	Current Yr	Next Yr	Year After
Sales					
Assembled	$2,141,189	$2,395,454	$2,494,033	$2,618,735	$2,749,671
Cut-to-Length	$1,965,777	$1,983,234	$1,916,940	$2,012,787	$2,113,426
Prefinished Lineals	$6,903,268	$7,367,112	$7,603,983	$7,984,182	$8,383,391
TOTAL SALES	*$11,010,234*	*$11,745,800*	*$12,014,956*	*$12,615,704*	*$13,246,489*
VARIABLE EXPENSES					
Direct Materials	$6,551,089	$6,824,310	$6,828,420	$7,169,840	$7,528,332
	59.5%	58.1%	56.8%	56.8%	56.8%
Shop Payroll	$1,959,822	$2,172,973	$2,388,418	$2,507,838	$2,633,230
	17.8%	18.5%	19.9%	19.9%	19.9%
GROSS MFG. PROFIT	*$2,499,323*	*$2,748,517*	*$2,798,119*	*$2,938,025*	*$3,084,926*
	22.7%	23.4%	23.3%	23.3%	23.3%
FIXED EXPENSES					
Sales and MKTG	$342,555	$336,892	$394,385	$430,000	$430,000
	3.1%	2.9%	3.3%	3.4%	3.2%
Facility	$855,332	$867,466	$846,826	$875,000	$875,000
	7.8%	7.4%	7.0%	6.9%	6.6%
Gen. and Admin.	$976,888	$998,987	$1,034,216	$1,065,242	$1,097,199
	8.9%	8.5%	8.6%	8.4%	8.3%
EBIT	*$324,548*	*$545,172*	*$522,693*	*$567,783*	*$682,727*
	2.9%	4.6%	4.4%	4.5%	5.2%
INTEREST EXPENSE	$108,545	$137,676	$129,817	$130,000	$130,000
	1.0%	1.2%	1.1%	1.0%	1.0%
PRE-TAX NI (LOSS)	*$216,003*	*$407,496*	*$392,876*	*$437,783*	*$552,727*
	2.0%	3.5%	3.3%	3.5%	4.2%
INCOME TAX. (@40% Estimated)	$86,401	$162,998	$157,150	$175,113	$221,091
AFTER-TAX NI (LOSS)	*$129,602*	*$244,498*	*$235,726*	*$262,670*	*$331,636*
	1.2%	2.1%	2.0%	2.1%	2.5%

Monthly Profit and Loss Statements: Current Year Actuals

FRANK'S FRAMES

CATEGORY	Period 1	Period 2	Period 3	Period 4	Period 5	Period 6	Period 7	Period 8	Period 9	Period 10	Period 11	Period 12	ACT-YTD
Sales													
Assembled	$172,842	$157,984	$204,664	$166,987	$155,876	$187,654	$237,465	$259,995	$277,464	$248,882	$225,432	$198,788	*$2,494,033*
Cut-to-Length	$105,988	$122,844	$178,877	$204,675	$198,788	$228,333	$146,232	$156,877	$164,264	$136,465	$144,911	$128,686	*$1,916,940*
Prefinished Lineals	$675,244	$906,265	$508,100	$760,956	$968,875	$558,336	$504,038	$478,764	$453,943	$364,530	$735,081	$689,853	*$7,603,983*
TOTAL SALES	*$954,074*	*$1,187,093*	*$891,641*	*$1,132,618*	*$1,323,539*	*$974,323*	*$887,735*	*$895,636*	*$895,671*	*$749,877*	*$1,105,424*	*$1,017,327*	*$12,014,956*
VARIABLE EXPENSES													
Direct Materials	$507,757	$682,727	$516,897	$625,960	$783,143	$578,143	$496,825	$522,606	$479,989	$458,198	$642,389	$533,788	*$6,828,420*
	53.2%	57.5%	58.0%	55.3%	59.2%	59.3%	56.0%	58.4%	53.6%	61.1%	58.1%	52.5%	56.8%
Shop Payroll	$182,603	$234,659	$192,588	$205,336	$243,931	$192,678	$191,548	$237,488	$172,001	$158,487	$196,219	$180,882	*$2,388,418*
	19.1%												
GROSS MFG. PROFIT	*$263,715*	*$269,708*	*$182,157*	*$301,323*	*$296,465*	*$203,502*	*$199,362*	*$135,542*	*$243,682*	*$133,192*	*$266,816*	*$302,657*	*$2,798,119*
	27.6%	22.7%	20.4%	26.6%	22.4%	20.9%	22.5%	15.1%	27.2%	17.8%	24.1%	29.8%	23.3%
FIXED EXPENSES													
Sales & MKTG Expense	$27,593	$33,782	$35,782	$24,317	$43,180	$33,808	$26,418	$36,033	$27,054	$31,324	$43,629	$31,468	*$394,385*
	2.9%	2.8%	4.0%	2.1%	3.3%	3.5%	3.0%	4.0%	3.0%	4.2%	3.9%	3.1%	3.3%
Facility Expenses	$70,831	$67,418	$68,169	$69,599	$89,695	$79,863	$70,519	$68,067	$59,574	$53,106	$73,848	$76,140	*$846,826*
	7.4%	5.7%	7.6%	6.1%	6.8%	8.2%	7.9%	7.6%	6.7%	7.1%	6.7%	7.5%	7.0%
Gen. & Admin. Expense	$83,880	$103,216	$69,508	$95,822	$88,940	$71,476	$80,743	$79,571	$94,448	$73,848	$88,150	$104,617	*$1,034,216*
	8.8%	8.7%	7.8%	8.5%	6.7%	7.3%	9.1%	8.9%	10.5%	9.8%	8.0%	10.3%	8.6%
EBIT	*$81,412*	*$65,293*	*$8,699*	*$111,586*	*$74,651*	*$18,356*	*$21,682*	*-$48,128*	*$62,607*	*-$25,085*	*$61,190*	*$90,433*	*$522,693*
	8.5%	5.5%	1.0%	9.9%	5.6%	1.9%	2.4%	-5.4%	7.0%	-3.3%	5.5%	8.9%	4.4%
INTEREST EXPENSES	$11,072	$14,178	$12,136	$12,705	$11,599	$10,287	$10,200	$9,415	$9,444	$8,429	$8,603	$11,752	*$129,817*
	1.2%	1.2%	1.4%	1.1%	0.9%	1.1%	1.1%	1.1%	1.1%	1.1%	0.8%	1.2%	1.1%
PRE-TAX NI (LOSS)	*$70,340*	*$51,115*	*-$3,437*	*$98,881*	*$63,052*	*$8,070*	*$11,482*	*-$57,543*	*$53,163*	*-$33,514*	*$52,587*	*$78,681*	*$392,876*
	7.4%	4.3%	-0.4%	8.7%	4.8%	0.8%	1.3%	-6.4%	5.9%	-4.5%	4.8%	7.7%	3.3%

Notes to Financials

FRANK'S FRAMES
Current year and previous year

NOTE 1
INVENTORIES

	Current Yr	Previous Yr
Raw Materials	$184,010	$362,152
Work In Progress (WIP)	$499,408	$585,334
Finished Goods	$184,520	$249,902
Total Inventory	$867,937	$1,197,387

NOTE 2
Inventories
Valued at lower of cost or market, first-in first-out (FIFO) method.

Property and Equipment
Property and Equipment are stated at cost. Depreciation is computed using straight-line and accelerated methods over useful lives.

NOTE 3
PROPERTY AND EQUIPMENT
Property and Equipment as of year end

	Current Yr	Previous Yr
Land	$18,250	$17,500
Buildings and Improvements	$292,434	$288,468
Machinery and Equipment	$1,373,470	$1,285,349
Vehicles	$82,265	$76,066
Office Furniture and Equipment	$251,725	$188,499
Total P and E	$2,018,143	$1,855,882

NOTE 4
The Company has available a $1.25 million line of credit at the bank, expiring in December of this year. Interest is at bank reference rate plus 1.75%. Annual commitment fees payable to lender are 0.25% per annum on maximum borrowing amount. Advances are $634,182 for current year and $916,850 for the previous year.

In addition, the Company has a term line available for financing equipment purchases up to the lesser amount of 75% of equipment cost or $250,000, which expires in December. Interest is at bank rate plus 1.75%. There were no advances as of year end.

Organizational Plan

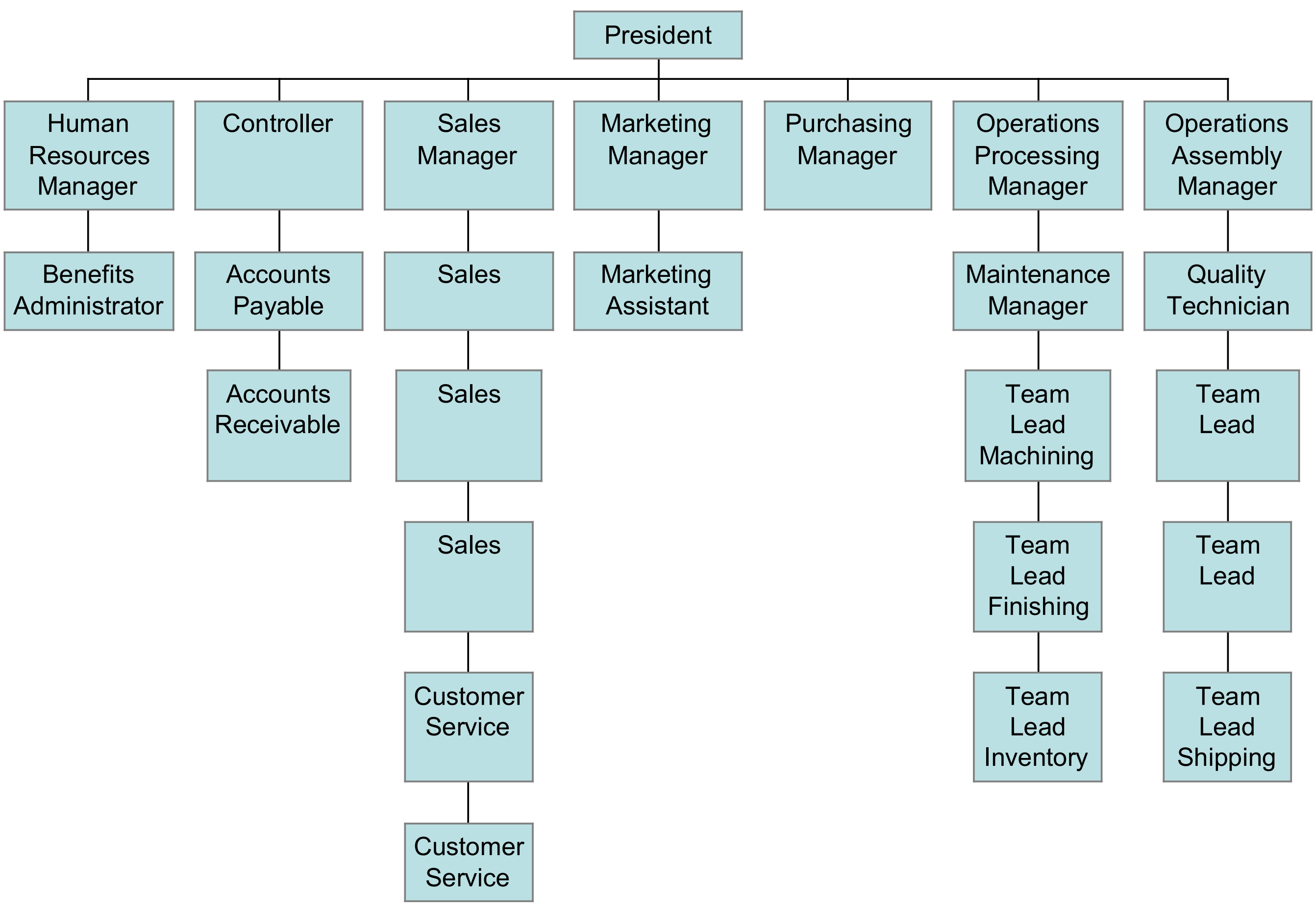
<u>Structure</u>

Frank's Frames is a subchapter S corporation. Frank Bocconi owns 52 percent of the stock of the corporation, with his sons Dominic and Frederick each owning 24 percent. Frank, Dominic, and Frederick personally guarantee all debts of the corporation. Dominic is currently president of Frank's Frames, and Frederick is sales manager. Frank is 92 years old, and his will leaves 60 percent of his remaining shares to Dominic and 40 percent of his shares to Frederick. Life insurance policies on Frank are in place to cover the cost of estate taxes and to ensure a smooth transition of ownership.

<u>Organizational chart</u>

Frank's management policy is based on the formation of both functional and cross-functional teams. On the organizational chart, the top leadership includes the seven direct reports to the president (Dominic).

Organizational Chart: Frank's Frames



Limitations

The financial forecasts used in this business plan are based on U.S. Government projections of 2.1 percent average national economic growth over the next 10 years and state forecasts that the growth in the state economy will continue to slightly outpace the national average. Any major deviations from these public projections could have a significant impact on the estimates contained herein.

Operational improvements (e.g., cost savings) based on new equipment purchases were developed using vendor's low projections for equipment performance as a conservative estimate of potential outcome. The savings have been qualified through phone calls to existing users of similar pieces of equipment in other parts of the country. Significant performance variations are possible, however, and the actual performance could be better or worse than the projections.