

CREATING A STRATEGIC TARGET

Imagine you are in a large auditorium. The room is filled with all the employees in your company. With confidence you stand before them and present a clear and detailed vision you have for your company.

You finish your speech. The entire room stands and begins applauding. The employees feel excited and proud to be apart of a company that has direction and a righteous purpose in which they see their part.

The reason for owning a business is to get more of what you “really” want. What you “really” want and what your business will look like when it can finally give you that is your Strategic Target.

A Strategic Target precisely defines your business, identifies your goals, and serves as your company’s resume. Because it provides specific and organized information about your corporate goals, a good strategic target is a crucial part of any business.

Some time ago, a study was completed at the Harvard Business School. The survey found that only 3% of that year’s graduating class had actually thought about and documented their goals. Another 12% had thought about their goals but had not taken the time to write them down. The rest, a staggering 85%, had not seriously considered their goals beyond graduating with a Masters in Business Administration.

The same group was re-surveyed 10 years later. As a baseline, the survey used the average salary or earning power of each individual. The survey found that the smallest group, the 3% who had actually documented their goals, was generating 10 times the income of the largest group who had not considered their goals. The study went on to illustrate that by documenting your goals and tracking your progress towards those goals, you have a 300% better chance of reaching them.

Having a documented vision and a way of tracking the progress towards that goal is an obvious and useful tool. Having one gives you a 300% better chance of getting there.

Despite the critical importance of a strategic Vision, many entrepreneurs drag their feet when it comes to preparing a written document. They argue that their marketplace changes too fast for a business plan to be useful or that they just don't have enough time. But just as a builder won't begin construction without a blueprint, eager business owners shouldn't practice business without a plan.



STEPS FOR DEVELOPMENT

- Consider carefully every question listed below and brainstorm your answers. (*These questions are listed in the TouchStone Application in the Form Tool as part of this process. If you have a TouchStone Account, document your answers to these questions in this form tool. This way you'll be able to keep a copy of your "thinking" and "dreaming" as part of your Strategic Target*)
- Write as much as you can to help stimulate as many ideas as possible. This is definitely the case where more is better.
- Speak with key managers and employees to elicit ideas. Their feedback is useful and valuable and in most cases they appreciate your solicitation of their feedback.
- Lastly, compile all of the real and relevant information and write out your Strategic Target. The goal is to have a 1-2 page document clearly describing the future vision of your company – a document that you would be willing to share with all of the people with whom your company interacts.

CONSIDERATIONS

Your Strategic Target should always be written for the future, two to five years out. Anything past five years is harder to plan for.

Start your Strategic Target with a sentence framing up your profitability goals.

"By 2009, the Company will reach 5 million in Sales with a Gross Margin of 65% and a Net Margin of 10%."



QUESTIONS

Consider the *Four Key Functions* in your Business and the corresponding key questions:

Guiding the Business

1. What is the profitability model for your business?
(See supplement on Page 4 of this document).
 - a. Sales Goals?
 - b. Direct Cost?
 - c. Marketing & Advertising Costs?
 - d. Fixed Costs?
 - e. Net Profit?
2. Describe your management and employee philosophy?
 - a. What kind of people will you employ and what will they value?
 - b. How will the company manage employees?
 - c. How will the company be viewed by the employees?
 - d. What will it be like to work at your company?
 - e. What will others (clients, vendors, colleagues) say about your business?
3. What will your life be like?
 - a. How many hours will you work each day?
 - b. What will you be doing at work?
 - c. What will you be doing when you're not at work?
 - d. What will it feel like?
4. How many offices/locations will you have and where will they be?

Getting the Business

1. What service(s) or product(s) does your business provide and what needs does it fill?
2. What will be unique about the products or services you offer?
3. Why will someone buy from you and not the competition?
4. How will you reach your potential customers?
5. Who is your best client? Describe them:
 - a. Where do they live?
 - b. How old are they?



- c. Are they married/single?
 - d. What is their gross total income?
 - e. How do they think and behave?
6. Why will they purchase products/services from you?
7. Average Client Value:
 - a. How much will your best client be spending on an average purchase?
 - b. How often will they buy from you each year?
 - c. For how many years?
8. How many sales will you need each year to reach your sales targets?
9. How many new clients will you need to add each year to maintain your sales goals?
10. How many sales people will you need to generate and convert this many sales each year?
11. What geographic areas or markets are you serving?
 - a. Will you be selling just in your metropolitan area, all across the country or internationally?

Doing the Business

1. How will your product(s) or service(s) be run or delivered?
2. What qualities will they have?
3. What will be your plan for customer service?
4. What is your goal for customer retention?
5. How many employees and in what positions will you need to be able to deliver on the promise made in your sales process?

Running the Business

1. How will the money in your business be managed and controlled?
 - a. Cash planning?
 - b. Budgeting?
 - c. Financial Controls?
 - d. Collections?
2. How will administration operate?
3. What are the most important aspects of your front office?



- a. Computer systems?
 - b. Phone systems?
 - c. Organization of paperwork?
 - d. Customer's first impressions of your business?
4. Draw an organizational chart of the functions/positions that need to be filled to address all of the needs for each of your four key functions.
 5. Determine a maximum and a minimum amount you would need to pay someone to fill each full time or part time position on the org chart.

IMPLEMENTATION

- Break down your plan and decide what can be accomplished over the next year.
- Plan out each goal for the year.
- If you do not have a strategic calendar, use our sample and upload it to TouchStone.
- Plan out each step on your calendar.
- Have a meeting with all your employees to share and discuss your Strategic Vision and the plans for the year.
- Track your goals (*see the Strategic Indicators worksheets*) and work to create all processes your business needs to fully realize your vision.

Supplemental Information on Creating a Profitability Plan

The primary focus on every business model is Profit. It is goal number one. It's the very foundation of your business model because without profit, your business isn't going to be worth much. Without profit, rarely will your business be able to give you what you want. Without profit, your business will not be able to survive. And, if the business doesn't survive, not only will you not be able to get what you want, but you'll also be unable to deliver your passion, your product and your services to your clients.

So how much profit will the future business earn? The answer to this question isn't always an obvious one. There are, however, several methods to come up with an answer.

One method is to research what is possible in your industry. Often there are industry associations and other reports available for the asking. For some



businesses, there are website calculators where you can enter some specific information and an answer is generated.

Another way, especially for a sole owner, is to consider this business of yours to be an “*income producing asset*” that you own. In other words, this business is an investment that pays you a specific rate of return; a sum of money paid to you, not for working there, but for creating it and getting it to a place where it is running smoothly and efficiently. Assume you never have to work again, and answer the question “*How much do I need each year to cover all of my bills, cover all of my personal expenses and do all of the things I want to do?*” Is it \$100,000? \$250,000? \$3 Million? Add another 15-20 percent to your answer and you have the estimated net pre-tax profit figure your “future” business needs to make.

Once you have that number, estimate an efficient Net Margin that your future business could and should generate. Net Margin is defined as the percentage of total sales that becomes pre-tax profit or Net Profit. Some businesses will only be able to generate an 8% Net Margin. Other serviced based business can generate as much as 25% – 30%. Whatever you estimate, take your profit figure and divide it by the Net Margin to calculate the gross sales your business will need to generate.

Let’s suppose, for example, you need \$150,000 each year to live your life. If you add 20% to that figure, your profit number is \$180,000. This means that your future business will generate \$180,000 in profits, of which \$150,000 goes into your pocket, and the other \$30,000 gets reinvested back into the company into some liquid asset – set aside “for a rainy day”.

Imagine that. Year after year, your business pays you this money and the rest continues to build in a savings vehicle. And this is what you’re paid for “owning” the company. If you work at the company, you’ll also get a salary commensurate with what you would pay someone else to fill that position. In other words, your \$150,000 pay check is your reward for starting the business and for all the effort, worry, hard work and risk invested.

Let’s also assume that a good Net Margin for this business is 15%. In other words, 15% of every dollar of gross sales is net profit. Following the calculation above, that would mean this business would need to generate \$1.2 Million in sales annually - ($\$180,000/15\%$).

Other important financial goals to consider are **variable costs**, **gross margin** and **sales and marketing expense**. Your total variable costs are taken out of every sales dollar, and they grow or decrease as sales grow or decrease. These costs are typically material and labor or the cost to deliver your service. In your

profitability analysis you need to consider total sales, then what percentage you will have to pay for variable costs. These two numbers combine to give you your gross profit. And your Gross Margin is the gross profit represented as a percentage of your total sales. Your sales and marketing, and total fixed expenses are added together to establish what is left over in Net Profit.

$$\textit{Total Sales - Variable Costs = Gross Profit}$$

$$\textit{Gross Profit - Sales \& Marketing Expense - Fixed Expenses = Net Profit}$$

Calculating these numbers will establish the profitability of your Strategic Vision and will also allow you to see what processes need to be in place to produce the specific results required for your business to succeed.