

5.5: The Three Threads

Learning Objectives

1. Learn that the planning process can add significantly to the delivery of customer value.
2. Understand that the proper management of the cash flow of a business can occur only in an environment of comprehensive planning.
3. Understand that although not all businesses will rely on e-business or e-commerce, they should carefully plan their inclusion into a firm's operations.

The business plan is the backbone of both start-up and existing businesses. The initial business plan forces one to consider the core issues in detail. These issues directly relate to the themes that are stressed throughout this text: customer value; cash flow; and digital technologies, e-commerce, and e-business. Building a good initial business plan requires the author(s) to seriously consider these three themes. It must be pointed out that these themes *must* be reviewed regularly as part of a continuous planning process. A great mistake of many small businesses is that they may begin with a formal plan, but they abandon the concept after receiving initial funding. Regardless of the industry or the business size, formally thinking about these themes in the context of planning is essential.

Customer Value

Businesses survive because they provide value to customers. To begin a business, one should have a clear vision as to what constitutes value to the targeted customers. The initial business plan must be able to articulate this vision. However, that notion of value can change over time. Customers' perceptions of value can evolve or change radically. Competitors can change what they offer customers, and the firm itself can acquire or lose capabilities that were used to provide value. This shifting value landscape does not allow any business to adhere to its initial plan as though it were dogma. Evaluations of customer value must be conducted regularly as part of an annual planning process.

Cash-Flow Implications

It cannot be repeated too often nor overemphasized: the survival of a small business often hinges on its ability to successfully manage its cash flow. Balancing cash inflows with outflows is not something that can be done in an ad hoc fashion. It requires a plan. Because one cannot count on accuracy in long-range forecasts, or even short-range forecasts, examining your cash flow must become part of an ongoing planning process. The text has promoted the idea of small businesses having annually updated plans. In the case of cash-flow calculations, it might be advisable for small firms to update their cash-flow analyses monthly.

The Influence of E-Commerce and E-Business

Not all firms will have the same commitment to e-commerce or e-business options. The level of commitment will be determined not so much by size, but by the nature of the business, the knowledge and experience of the owner(s) and the management team, and the firm's growth objectives. However, given the declining costs for website development and hosting, and the increasing ease of using tools such as social media, web store sales management, and **customer relationship management**, Efraim Turban et al., *Electronic Commerce: A Managerial Perspective* (Upper Saddle River, NJ: Pearson/Prentice Hall, 2008), 759. it would be odd if these options were not considered in the planning process. This is not to say that all small businesses must include them in their initial business plan, but the integration of e-commerce or e-business can be an evolutionary process that can be made much easier by thoughtful planning.

KEY TAKEAWAYS

- The planning process for a small business must always incorporate the notion of customer value and recognize that this notion can change over time.
- The proper management of a firm's cash flow requires a commitment to planning the management of one's cash flow.
- Although e-business and e-commerce options may not be considered in the original plan for a business, if they are eventually considered, their successful implementation will require a detailed plan.

EXERCISES

1. In Question 2 of Exercise 5.1, you were asked to interview five local business owners. Ask them how they manage to identify how customer needs might change over time and how they would plan on responding to such changes.
2. While interviewing them, ask how they go about managing their cash flow. Ask how far ahead they plan their cash-flow management.
3. If they have a website, ask how they planned for its creation and use.

Disaster Watch

The man who is prepared has his battle half won.

Miguel de Cervantes

When failure is not an option, then planning is a necessity. A well-built plan enables the management team of a business to fully anticipate what problems they may encounter and what will be required of them to make the firm successful. There are an almost innumerable number of factors that can become a disaster for a business, but solid planning can significantly reduce that number. A good plan should also force the owner and the management team to anticipate major areas of concern that can become disasters, such as the following:

- **Are the participants ready?** For the prospective first-time business owner, the task of building a business plan should provide valuable insights into what will be required to make the business function. The plan should indicate the necessary initial funding and the work commitment necessary for success.
- **Unrealistic expectations.** A thoughtful plan should eliminate assumptions or outcomes that cannot be supported after careful consideration or analysis. It may be sound that your sales will grow by 100 percent every year for five years or that you will recoup your investment in six months, but some simple running of numbers might show that those are impossible outcomes. Simply “forcing” someone to articulate such assumptions can help return him or her to a more realistic vision of the world. Better yet, have some outside sets of “eyes”—friends, other businesspeople, your lawyer, or your accountant—review the plan.
- **Determining whether the business will be profitable.** The financial analysis section of your plan should indicate when a start-up will become profitable or how much profit a business will make. This is of great importance to potential investors and to the owner.
- **Not truly understanding the market by failing to know how customers determine value.** The business plan requires that one clearly identifies who the targeted customers are and how the business will provide greater value than its competitors. Plans force owners and managers to specifically articulate how they will serve their customer base. Without clearly stating these key points, any business is headed for disaster because having some sort of “hunch” or “idea” about your customers and their needs is not enough.
- **Failure to adequately capitalize the business.** The overwhelming consensus is that small businesses “fail” for two main reasons: inadequate management (often attributed to a failure to plan) and insufficient capitalization. Start-ups often underestimate the required capital to begin operations and continue operations for the foreseeable horizon. A structured plan requires them to consider what will be needed during the next few years.
- **Not determining the cash flow.** The lifeblood of any business is its cash flow. This is particularly true for small businesses. Anticipating a firm’s cash inflows and outflows is not something that can be handled in an intuitive fashion. It requires analysis. Misjudging these two flows is, perhaps, the surest recipe for disaster.
- **Failure to create the appropriate management structure.** Small-business owners are often accused of wanting complete control of all aspects of their firm’s operations. For micro-sized small businesses, this may be feasible, but as the firm’s size increases, it is critical that lines of responsibility be clearly drawn. Managers and employees must know what is expected of them and their responsibilities. A failure to do so produces confusion and conflict—another good recipe for disaster. If the formal delineation of the management structure is not part of a plan, then it is highly unlikely that necessary clarity will arise spontaneously.

Managers in businesses both small and large often complain of “firefighting” problems; unfortunately, many of these problems are a result of inadequate or nonexistent planning. In the case of the smaller enterprise, a small blaze can rapidly become an inferno that can lead to disaster. According to a report released by the Epicurus Institute, “when a business starts or operates without a plan, the principles are not prepared to deal with the slightest problem that can affect their business.”

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