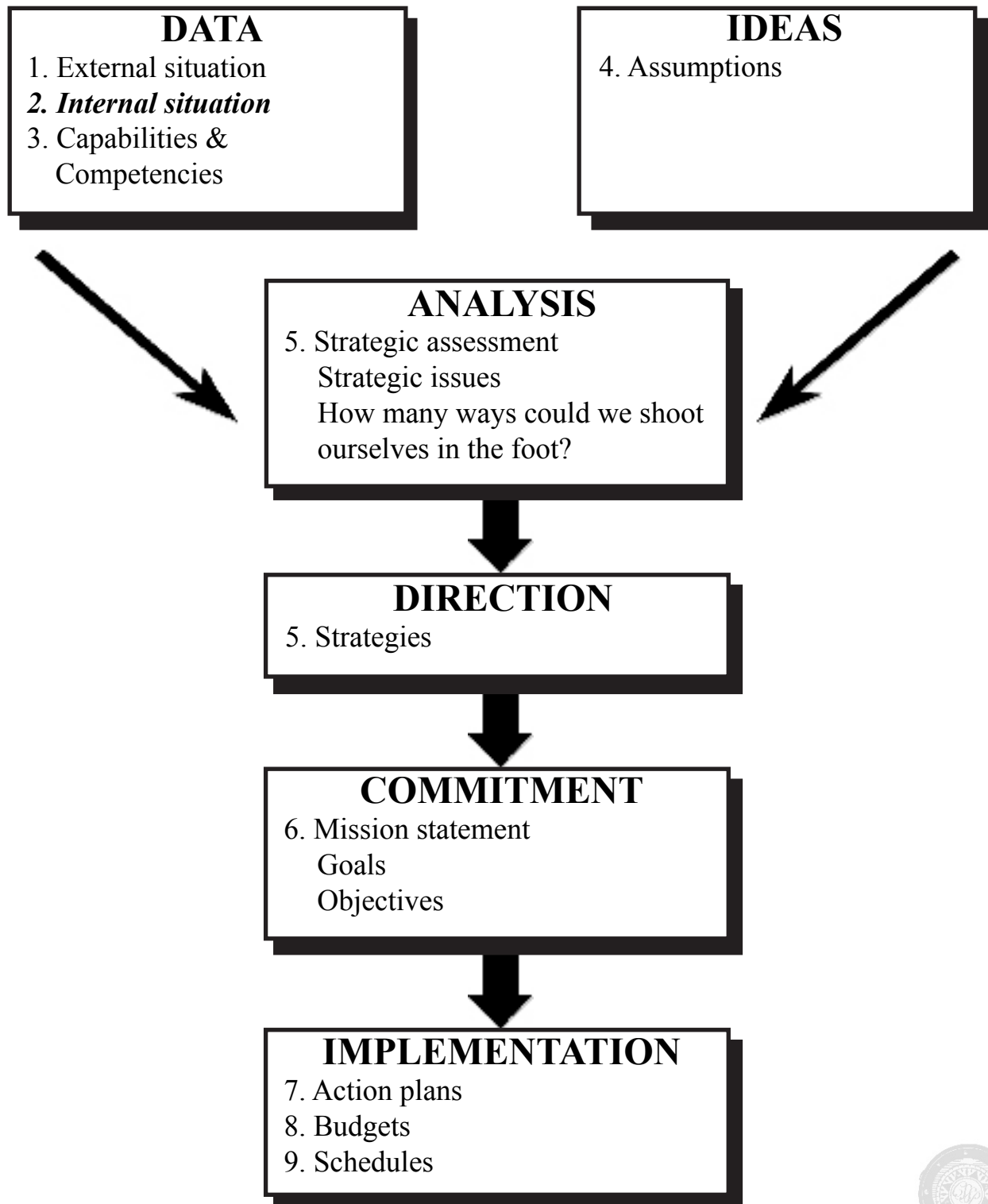


# SIMPLIFIED STRATEGIC PLANNING PROCESS FLOW





This section will contain a brief overview of what it is that you are managing. It is not intended to be a comprehensive description of the business or a replacement for internal measurement systems. It is meant to capture in a simple format strategically important information regarding deployment of resources, contribution of various sectors, and overall financial health of the enterprise. The included items will help to focus the thinking of the planning team on those things having strategic significance.

**Balance Sheet**

Page 2.1

Your balance sheet is strategically important because it reveals capital structure (i.e., sources of capital resources) and capital deployment (i.e., uses of capital resources). The balance sheet is central to your financial health, because it reflects on your ability to provide new capital resources – both in terms of direct resource availability and in terms of credit-worthiness. In a simple, one page format, capture a top level view of the capital structure and deployment in the business today.

**Five Year Operating Statement**

Page 2.2

The strategic value of this information is an understanding of how various activities in the business contribute to the creation or consumption of resources. Expressed in both dollars and percentages, this worksheet reveals your cost structure, developments, and trends therein. This should be a simple, one page summary. You should use a format that is easy for the team to understand. You may have cost elements other than those shown in the example which are of significant strategic importance, and therefore deserve to be listed separately. If so, prepare your own form – using a copy of a blank worksheet master.

Note the sequence, which groups variable costs before GROSS MARGIN ON VARIABLE COSTS and fixed costs after GROSS MARGIN ON VARIABLE COSTS. This particular format is highly useful for budget preparation and break-even analysis, but it is not absolutely essential to the strategic planning process. It will be necessary to make reasonable assignments as to which costs are “fixed” or “variable” in order to perform this type of analysis. Of course, no costs are totally variable or totally fixed. However, in the short run, barring complete interruption of operations, the distinction is valid and useful. For strategic purposes, establishing a reasonable basis and tracking trends is often more important than the absolute numbers.

**Measures of Success**

Page 2.3

The measures of success should be the leading indicators for the enterprise. The measures shown in the example are often important for strategic planning. Of course, there are other useful financial and performance ratios, some of which are in general usage and some of which may be unique to your operation. You should endeavor to distill the many possible measures down to a 10-15 item list that represents a balanced view of the business, including some financial, customer, internal, and innovation measures. Measures which could arguably appear in more than one category, should be listed where they give the most meaningful insight. Be sure to pay attention to trends as well as magnitude of values recorded.

**Financial Measures:**

“How do we look to the owners or shareholders?” Typical measures include sales (in units and/or dollars), cash flow, profitability, growth, market share, ROIC, break-even, receivables, debt level, margins, shareholder value, etc.

**Customer Measures:**

“How do our customers see us?” Typical measures include number of customers, cus-

customer satisfaction index, delivery lead time, repeat orders, price level, external quality, percent on time, backlog, etc.

**Internal Measures:**

“How are we managing our day-to-day activities?” Typical measures include orders/inquiries, productivity, efficiency, capacity utilization, cycle time, cost level, internal quality, warranty cost, backlog, employee skill level, etc.

**Measures of Innovation/Learning:**

“How are we improving and learning to create value?” This is an area that is not frequently measured, but it is a key to your continued success and the renewal of your business. Some useful measures are sales from new products, employee training, process development time, product introduction time, total cost of quality, average age of patents, etc. In addition, the rate of change in any key indicator listed in the other three categories can be a good measure of innovation or learning in an organization.

**Profitability Analysis**

Page 2.4

Sales should be analyzed by any category where significant variation in contribution to fixed costs and profits exist. Particularly useful are analyses by product/service and market segment. The purpose is to gain an understanding of areas of strong and weak contribution. These might include markets, products, customers, etc. Over a period of time, trends will be revealed as well as absolute and relative contributions. Sales analyses can be helpful for pricing decisions.

You should certainly be able to determine numbers of orders and sales dollars by various categories. If you cannot do so, take immediate steps to include the necessary information in your accounting system. This will not be expensive.

The development of gross margin and operating profit figures by category will only be possible if your accounting system provides standard cost or actual cost by job. If so, the analysis will be a simple matter and should be undertaken. However, if you do not already have a job cost system, you must make a decision. Such a system may be expensive. It may or may not be worthwhile – depending on the specific circumstances. In the event that you decide not to install a job cost system, margin and profit analysis can still be approximated to good advantage.

**BALANCE SHEET AS OF 5/31/2009**

**ASSETS**

Current Assets	
Cash	399,812
Accounts Receivable	6,354,747
Raw Materials Inv.	2,845,773
Work In Process Inv.	1,885,814
Finished Goods Inv.	847,609
Prepaid Expenses	<u>806,701</u>
Total Current Assets	13,140,456
Fixed Assets	
Plant & Equipment	13,461,812
Office Furn. & Equip.	1,280,685
Vehicles	<u>506,793</u>
	15,249,290
Depreciation	<u>5,618,977</u>
Net Fixed Assets	9,630,313
Total Assets	<u>22,770,769</u>

**LIABILITIES AND NET WORTH**

Current Liabilities	
Notes Payable	245,000
Accounts Payable	1,989,827
Accrued Liabilities	1,702,316
Current Portion Of Long Term Debt	<u>1,680,000</u>
Total Current Liabilities	5,617,143
Long Term Debt	10,080,000
Less Current Portion	<u>1,680,000</u>
Net Long Term Debt	8,400,000
Net Worth	8,753,626
Total Liabilities And Net Worth	<u>22,770,769</u>





## FIVE YEAR OPERATING STATEMENT

	2005	2006	2007	2008	2009	2009	Est. \$ 2010	Est. % 2010
	\$	\$	\$	\$	\$	\$	\$	%
GROSS SALES	28,787,599	34,548,098	40,766,751	46,004,452	55,350,189	65,809,187	106.7	106.9
Deductions from Sales	2,064,885	2,410,243	2,847,239	3,183,684	3,579,418	4,113,074	6.9	6.7
Variations in Fin. Goods & WIP	446,849	433,048	518,219	419,792	104,848	117,516	0.2	0.2
NET SALES AFTER INVENT. ADJ.	27,169,562	32,570,903	38,437,731	43,240,561	51,875,619	61,578,596	100.0	100.0
Materials	8,471,729	10,442,183	12,300,075	13,763,098	15,807,837	18,332,559	30.5	29.8
Labor	6,567,700	7,994,303	9,313,462	10,397,405	12,423,834	14,807,067	24.0	24.0
Payroll Taxes on Labor	564,314	686,893	811,032	895,216	1,110,483	1,363,190	2.1	2.2
Equipment Repairs	330,733	353,579	462,408	540,669	708,389	869,621	1.4	1.4
Manufacturing Expenses	479,650	460,222	584,254	632,708	1,124,444	1,292,680	2.2	2.1
Power & Light	190,753	227,982	307,658	384,161	460,288	587,582	0.9	1.0
TOTAL VARIABLE COSTS	16,604,880	20,165,162	23,778,890	26,613,259	31,635,275	37,252,700	61.0	60.5
GROSS MARGIN ON VAR. COSTS	10,564,682	12,405,741	14,658,841	16,627,302	20,240,344	24,325,896	39.0	39.5
Supervision	320,806	352,888	386,253	397,793	489,268	564,079	0.9	0.9
Depreciation	1,032,443	1,067,984	1,306,881	1,445,922	1,820,832	2,350,328	3.5	3.8
Other Fixed Manufacturing Costs	1,365,291	1,596,023	1,908,833	2,095,388	2,719,659	3,055,427	5.2	5.0
TOTAL FIXED MFG. COSTS	2,676,234	3,016,895	3,601,967	3,939,103	5,029,759	5,969,833	9.7	9.7
Sales & Administrative Salaries	3,052,484	3,296,683	3,804,514	4,236,678	5,332,382	5,875,820	10.3	9.5
Advertising	294,129	308,871	345,682	418,664	372,127	470,066	0.7	0.8
Depreciation	131,275	137,837	154,214	173,807	258,536	282,039	0.5	0.5
Professional Services	171,085	227,996	303,268	348,695	460,335	470,066	0.9	0.8
Management Development	136,258	138,491	119,542	146,002	217,664	235,033	0.4	0.4
Pension	478,560	501,645	540,444	531,644	863,087	987,138	1.7	1.6
Other Sales & Administrative Costs	1,062,716	1,168,723	1,452,079	1,707,256	1,934,273	2,211,851	3.7	3.6
TOTAL SALES & ADMIN. COSTS	5,326,508	5,780,246	6,719,742	7,562,746	9,438,405	10,532,013	18.2	17.1
OPERATING PROFIT	2,561,941	3,608,601	4,337,132	5,125,454	5,772,180	7,824,049	11.1	12.7
INTEREST EXPENSE	590,022	649,024	769,544	828,341	862,200	907,000	1.7	1.5
NON-OPERATING EXPENSES	28,792	34,550	40,778	41,013	44,774	65,809	0.1	0.1
NET INCOME BEFORE TAXES	1,943,128	2,925,027	3,526,809	4,256,099	4,865,207	6,851,240	9.4	11.1
Income Taxes	825,829	1,243,136	1,498,894	1,808,842	2,067,713	2,911,777	4.0	4.7
NET INCOME AFTER TAXES	1,117,298	1,681,890	2,027,915	2,447,257	2,797,494	3,939,463	5.4	6.4







## MEASURES OF SUCCESS

	2005	2006	2007	2008	2009
<b>Financial</b>					
Net Sales in \$000	27,170	32,571	38,438	43,241	51,876
Gross margin on sales	38.9%	38.1%	38.1%	38.5%	39.0%
% Beyond Break-even Point	32%	41%	42%	45%	40%
Net Profit after Taxes (\$000)	1,117	1,682	2,028	2,447	2,797
Cash Flow Generated (\$000)	601	1,208	1,809	2,387	3,194
Funded Debt/Equity Ratio	1.5	2.3	2.0	1.7	1.2
Current Assets/Current Liabilities	167%	78%	127%	203%	234%
A.T. Return on Invested Capital	9.1%	12.2%	16.3%	16.7%	16.5%

<b>Customer</b>					
Number of Customers	128	140	150	154	165
Customer Satisfaction Index (1-10)	?	5.5	5.5	7.4	8.1
Delivery Time (avg. days)	28	20	13	13	12
% Complete on time	?	?	?	86%	94%

<b>Internal</b>					
Orders/inquiries	.41	.49	.66	.77	.79
Value Added/employee (\$000)	64	76	87	90	103
Capacity Utilization	82%	84%	86%	83%	81%
Cycle Time (days)	32	34	22	18	16
Scrap rate	?	?	?	4%	1%

<b>Innovation/Learning</b>					
% of sales from products < 5yrs old	?	?	8%	14%	20%
Training hours/employee/year	?	?	?	15	24
Number of patents filed	?	2	2	3	4
Months to break-even: new products	?	44	38	33	30





**PROFITABILITY ANALYSIS BY PRODUCT FOR 2009**

	# Of Trans- actions	% Of Trans- actions	Net Sales (\$)	% Of Sales	Gross Margin on Variable Cost (\$)	% Of Sales	Gross Margin % Of Sales	Total Gross Margin	Operating Profit (\$)	% Of Sales	Total Profits	Capacity Utilization
Int. Paper Partitions & Pads	1490	49	15,263,225	30	6,649,153	44	33	2,059,007	13	36	83	
Interior Paper Trays	428	14	8,237,848	16	2,515,611	31	12	46,247	1	1	77	
Int. Plastic Separators	154	5	5,815,257	11	2,547,306	44	13	785,483	14	14	75	
Exterior Paper Boxes	346	11	4,839,995	9	1,507,579	31	7	55,247	1	1	79	
Ext. Plastic Clamshells	460	15	8,719,095	17	3,400,458	39	17	1,093,849	13	19	91	
Pkg. Design & Testing	150	5	1,092,098	2	764,469	70	4	605,799	55	10	NA	
Contract Packaging Svc.	40	1	7,908,101	15	2,855,769	36	14	1,126,548	14	20	NA	
Grand Total	3,068	100	51,875,619	100	20,240,344	39	100	5,772,180	11	100	81	



