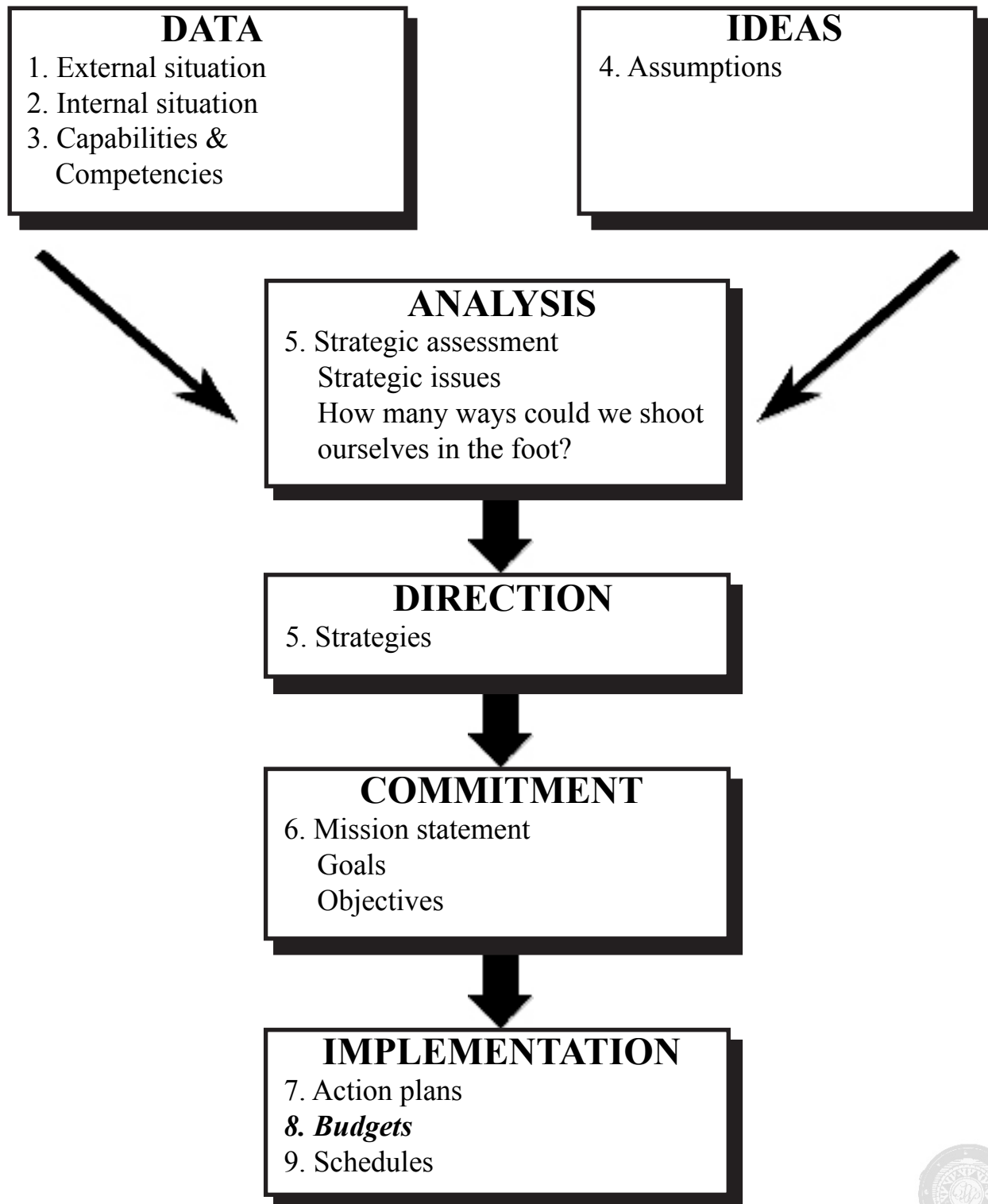


# SIMPLIFIED STRATEGIC PLANNING PROCESS FLOW





Budgeting is the planning of income and expenditures. It deals with both an important input to strategic planning (i.e., the provision of dollar resources) and an important output of strategic planning (i.e., the “bottom line” results). Therefore, although strategic planning is a great deal more than just budgeting, budgeting is an integral part of strategic planning.

### Operating Budget

Page 8.1

The OPERATING BUDGET is a brief summary annual budget. It uses the same format we used for the FIVE YEAR OPERATING STATEMENT (2.2). This should be a conservative baseline budget that does not include specific anticipated results of strategic planning efforts. It is used to drive the CASH FLOW BUDGET (8.3).

### Investment Budget

Page 8.2

The INVESTMENT BUDGET is simply a prioritized listing of all proposed expenditures from the ACTION PLANS (7.n). All expenditures from the same Action Plan should be listed together (but separately) in sequence. Do not list actions having no expenditures.

The priorities will determine the cutoff point if there are not sufficient funds for all proposed expenditures. Priorities are for guidance and may be changed at any time. Actions not funded must be deleted. If the Action Plan is critically damaged, the Action Plan and the Objective must be modified, postponed or eliminated.

It is sometimes possible to save a lower priority Action Plan by deleting one or more **actions** from higher priority Action Plans. This is only possible when the deletion of the latter does not severely damage the higher priority Action Plans.

Outlay Dates are filled in during the scheduling and budgeting process at the final planning session.

### Cash Flow Budget

Page 8.3

The CASH FLOW BUDGET is important for the essential function of protecting your liquidity. It also determines the timing of Action Plan expenditures. Note that you must have an OPERATING BUDGET (8.1) before you can construct a CASH FLOW BUDGET.

#### Constructing a Cash Flow Budget:

Business operations generate cash in the form of **net profit before taxes**. But net profit before taxes is not the total cash generated from operations. Non-cash expenses, which decrease the net profit, but are not actually paid for with cash must be “added back” to the net profit when calculating cash flow. Similarly, actual cash outlays which do not effect the net profit must be subtracted from the net profit when calculating cash flow.

**Depreciation** is an example of an expense that must be added back in because it is an expense item which does not require a cash expenditure. **Taxes paid** (not taxes accrued) and **scheduled payments on principal** are two examples of additional cash outlays which are not reflected in net profit before taxes and therefore must be subtracted when calculating cash flow.

Changes in inventory, receivables and payables also effect cash flow. **Increases in accounts receivable, inventory and prepaids** reduce the cash generated and must therefore be subtracted. But increases in **accounts payable** (i.e., additional funds supplied by trade creditors) and **accrued expenses** must be added back in to arrive at cash

flow generated.

A third influence on cash flow is financing decisions. Businesses consume cash in the form of **investments, unscheduled payments on principal, and dividends**. CASH CONSUMED is subtracted from CASH FLOW GENERATED to arrive at GROSS CASH FLOW. This can be either positive or negative. Any negative projected CASH BALANCE requires an increase in CASH FLOW GENERATED, a reduction of CASH CONSUMED and/or the raising of additional cash (CASH RAISED) through the **liquidation of unneeded assets, additional funds borrowed and/or additional equity capital obtained**.

The FIVE YEAR OPERATING BUDGET is a forward looking financial statement that is used to compare various scenarios and help judge if the Strategic Plan will contribute to improving the financial results for the company. While this worksheet is not essential to the strategic planning process, it will help you to look forward to resource and performance requirements.

The format should be the same as the formats of the FIVE YEAR OPERATING STATEMENT (2.2) and the OPERATING BUDGET (8.1). As with those worksheets, you may want to make some modification to accommodate your particular situation. If you already have a good future budgeting process, continue to use it without modification. If not, begin using this worksheet at your earliest convenience.

It is important that you keep the format of this budget simple. Detailed supporting budgets are not recommended for inclusion in the STRATEGIC PLANNING WORKBOOK. This budget is not intended to be an accurate prediction of the future, but rather a pro forma statement that can be used to compare various scenarios and provide a “sanity check” for the planning process. It is appropriate to prepare multiple versions of the same budget to explore best case, worst case, and other “what if” scenarios.

**OPERATING BUDGET FOR 2009 (\$000)**

	Jan.	Feb	March	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Total
GROSS SALES	65,809	106.9	75,210	107.4	89,312	107.3	103,414	107.3	122,217	107.4	141,020	107.5	65,809
Deductions from Sales	4,231	6.9	5,171	7.4	6,111	7.3	7,051	7.3	8,461	7.4	9,871	7.5	4,230
Variations in Fin. Goods & WIP	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	-
<b>NET SALES AFTER INVENT. ADJ.</b>	<b>61,579</b>	<b>100.0</b>	<b>70,040</b>	<b>100.0</b>	<b>83,202</b>	<b>100.0</b>	<b>96,363</b>	<b>100.0</b>	<b>113,756</b>	<b>100.0</b>	<b>131,148</b>	<b>100.0</b>	<b>61,579</b>
Materials	18,333	29.8	20,683	29.5	24,443	29.4	28,204	29.3	33,375	29.3	38,310	29.2	18,333
Labor	14,807	24.0	16,452	23.5	19,273	23.2	22,093	22.9	25,854	22.7	29,614	22.6	14,807
Payroll Taxes	1,363	2.2	1,528	2.2	1,786	2.1	2,068	2.1	2,421	2.1	2,773	2.1	1,363
Equipment Repairs	870	1.4	1,058	1.5	1,246	1.5	1,504	1.6	1,810	1.6	2,092	1.6	870
Manufacturing Expenses	1,293	2.1	1,551	2.2	1,904	2.3	2,327	2.4	2,726	2.4	3,149	2.4	1,293
Power & Light	588	1.0	846	1.2	1,246	1.5	1,739	1.8	2,397	2.1	3,149	2.4	588
<b>TOTAL VARIABLE COSTS</b>	<b>37,253</b>	<b>60.5</b>	<b>42,118</b>	<b>60.1</b>	<b>49,897</b>	<b>60.0</b>	<b>57,936</b>	<b>60.1</b>	<b>68,583</b>	<b>60.3</b>	<b>79,089</b>	<b>60.3</b>	<b>37,253</b>
<b>GROSS MARGIN ON VAR. COSTS</b>	<b>24,326</b>	<b>39.5</b>	<b>27,922</b>	<b>39.9</b>	<b>33,304</b>	<b>40.0</b>	<b>38,428</b>	<b>39.9</b>	<b>45,173</b>	<b>39.7</b>	<b>52,060</b>	<b>39.7</b>	<b>24,326</b>
Supervision	564	0.9	635	0.9	729	0.9	846	0.9	987	0.9	1,175	0.9	564
Depreciation	2,350	3.8	2,585	3.7	3,055	3.7	3,525	3.7	4,231	3.7	4,936	3.8	2,350
Other Fixed Manufacturing Costs	3,055	5.0	3,525	5.0	4,231	5.1	4,983	5.2	5,782	5.1	6,581	5.0	3,055
<b>TOTAL FIXED MFG. COSTS</b>	<b>5,970</b>	<b>9.7</b>	<b>6,745</b>	<b>9.6</b>	<b>8,015</b>	<b>9.6</b>	<b>9,354</b>	<b>9.7</b>	<b>11,000</b>	<b>9.7</b>	<b>12,692</b>	<b>9.7</b>	<b>5,970</b>
Sales & Administrative Salaries	5,876	9.5	6,463	9.2	7,521	9.0	8,461	8.8	9,401	8.3	10,812	8.2	5,876
Advertising	470	0.8	635	0.9	823	1.0	1,058	1.1	1,410	1.2	1,575	1.2	470
Depreciation	282	0.5	329	0.5	423	0.5	541	0.6	682	0.6	729	0.6	282
Professional Services	470	0.8	517	0.7	564	0.7	635	0.7	799	0.7	917	0.7	470
Management Development	235	0.4	259	0.4	282	0.3	306	0.3	353	0.3	400	0.3	235
Pension	987	1.6	1,316	1.9	1,551	1.9	1,810	1.9	2,139	1.9	2,468	1.9	987
Other Sales & Administrative Costs	2,212	3.6	2,479	3.5	2,860	3.4	3,280	3.4	3,814	3.4	4,386	3.3	2,212
<b>TOTAL SALES &amp; ADMIN. COSTS</b>	<b>10,532</b>	<b>17.1</b>	<b>11,998</b>	<b>17.1</b>	<b>14,024</b>	<b>16.9</b>	<b>16,089</b>	<b>16.7</b>	<b>18,597</b>	<b>16.3</b>	<b>21,284</b>	<b>16.2</b>	<b>10,532</b>
<b>OPERATING PROFIT</b>	<b>7,824</b>	<b>12.7</b>	<b>9,179</b>	<b>13.1</b>	<b>11,265</b>	<b>13.5</b>	<b>12,985</b>	<b>13.5</b>	<b>15,577</b>	<b>13.7</b>	<b>18,084</b>	<b>13.8</b>	<b>7,824</b>
Interest Expense	907	1.5	907	1.3	907	1.1	907	0.9	907	0.8	907	0.7	907
Non-Operating Expenses	66	0.1	66	0.1	66	0.1	66	0.1	66	0.1	66	0.1	66
<b>NET INCOME BEFORE TAXES</b>	<b>6,851</b>	<b>11.1</b>	<b>8,206</b>	<b>11.7</b>	<b>10,293</b>	<b>12.4</b>	<b>12,012</b>	<b>12.5</b>	<b>14,604</b>	<b>12.8</b>	<b>17,111</b>	<b>13.0</b>	<b>6,851</b>
Income Taxes	2,912	4.7	3,488	5.0	4,374	5.3	5,105	5.3	6,207	5.5	7,272	5.5	2,912
<b>NET INCOME AFTER TAXES</b>	<b>3,939</b>	<b>6.4</b>	<b>4,718</b>	<b>6.7</b>	<b>5,918</b>	<b>7.1</b>	<b>6,907</b>	<b>7.2</b>	<b>8,397</b>	<b>7.4</b>	<b>9,839</b>	<b>7.5</b>	<b>3,939</b>



## INVESTMENT BUDGET

<u>Priority of Objective</u>	<u>Action Number</u>	<u>Item</u>	<u>Amount</u>	<u>Cumulative Amount</u>	<u>Outlay Date</u>
1	1-4	Software delivery	20,300	20,300	
1	1-5	Design distribution software	90,000	110,300	
1	1-7	Select evaluation personnel	200	110,500	
1	1-17	Software delivery and installation	225,000	335,500	
1	2-5	Conduct field survey	10,000	345,500	
2	3-2	Develop incentive bonus plan	3,000	348,500	
3	4-3	Purchase various materials	16,000	364,500	
3	5-14	Develop new mailing pieces	21,000	385,500	
4	6-6	Bobst diecutter	700,000	1,085,500	
4	6-13	Purchase components for semi-automatics	250,000	1,335,500	
5	7-6	Design cost system	10,000	1,345,500	
6	9-5	Acquisition search	12,000	1,357,500	
6	9-24	Acquisition negotiations	5,500	1,363,000	
6	9-29	Acquisition close	250,000?	1,613,000	







**CASH FLOW BUDGET FOR 2010 (\$000)**

	Jan.	Feb.	March	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
+ Net Profit before Taxes	234	506	364	388	683	636	707	704	609	632	609	779
+ Depreciation	212	212	212	212	212	212	212	212	236	236	236	228
- Taxes Paid			-500			-600			-650			-750
- Sched. Payments on Principal	-140	-140	-140	-140	-140	-140	-140	-140	-140	-140	-140	-140
- Increase in Accounts Receivable		-600			-625							-575
- Inc. in Inventories & Prepaid	-500			-500								-500
+ Inc. in Payables & Accrued Exp.	500			500								500
<b>CASH FLOW GENERATED</b>	<b>306</b>	<b>-22</b>	<b>-64</b>	<b>460</b>	<b>130</b>	<b>108</b>	<b>779</b>	<b>776</b>	<b>55</b>	<b>728</b>	<b>705</b>	<b>-458</b>
+ Investments	190	72	523	62	103	499	99	290	106	95	74	275
+ Unsched. Payments on Principal					200		200	200	0	0		
+ Dividends												
<b>CASH CONSUMED</b>	<b>190</b>	<b>72</b>	<b>523</b>	<b>62</b>	<b>303</b>	<b>499</b>	<b>299</b>	<b>490</b>	<b>106</b>	<b>95</b>	<b>74</b>	<b>275</b>
<b>GROSS CASH FLOW (CASH FLOW GENERATED</b>												
minus CASH CONSUMED)	116	-94	-587	398	-173	-391	480	286	-51	633	631	-733
+ Liquidation of Unneeded Assets						30						
+ Funds Borrowed			200			400						
+ Equity Capital Obtained												
<b>CASH RAISED</b>	<b>0</b>	<b>0</b>	<b>200</b>	<b>0</b>	<b>0</b>	<b>430</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>NET CASH FLOW (GROSS CASH</b>												
<b>FLOW plus CASH RAISED)</b>	<b>116</b>	<b>-94</b>	<b>-387</b>	<b>398</b>	<b>-173</b>	<b>39</b>	<b>480</b>	<b>286</b>	<b>-51</b>	<b>633</b>	<b>631</b>	<b>-733</b>
<b>CASH BALANCE</b>	<b>656</b>	<b>562</b>	<b>175</b>	<b>573</b>	<b>400</b>	<b>439</b>	<b>919</b>	<b>1,205</b>	<b>1,154</b>	<b>1,787</b>	<b>2,418</b>	<b>1,685</b>





**FIVE YEAR OPERATING BUDGET**

	2009	2009	2010	2010	2011	2011	2012	2012	2013	2013	2014	2014
	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%
GROSS SALES	65,809	106.9	75,210	107.4	89,312	107.3	103,414	107.3	122,217	107.4	141,020	107.5
Deductions from Sales	4,230	6.9	5,171	7.4	6,111	7.3	7,051	7.3	8,461	7.4	9,871	7.5
Variations in Fin. Goods & WIP	-	-	-	-	-	-	-	-	-	-	-	-
NET SALES AFTER INVENT. ADJ.	61,579	100.0	70,040	100.0	83,202	100.0	96,363	100.0	113,756	100.0	131,148	100.0
Materials	18,333	29.8	20,683	29.5	24,443	29.4	28,204	29.3	33,375	29.3	38,310	29.2
Labor	14,807	24.0	16,452	23.5	19,273	23.2	22,093	22.9	25,854	22.7	29,614	22.6
Payroll Taxes	1,363	2.2	1,528	2.2	1,786	2.1	2,068	2.1	2,421	2.1	2,773	2.1
Equipment Repairs	870	1.4	1,058	1.5	1,246	1.5	1,504	1.6	1,810	1.6	2,092	1.6
Manufacturing Expenses	1,293	2.1	1,551	2.2	1,904	2.3	2,327	2.4	2,726	2.4	3,149	2.4
Power & Light	588	1.0	846	1.2	1,246	1.5	1,739	1.8	2,397	2.1	3,149	2.4
TOTAL VARIABLE COSTS	37,253	60.5	42,118	60.1	49,897	60.0	57,936	60.1	68,583	60.3	79,089	60.3
GROSS MARGIN ON VAR. COSTS	24,326	39.5	27,922	39.9	33,304	40.0	38,428	39.9	45,173	39.7	52,060	39.7
Supervision	564	0.9	635	0.9	729	0.9	846	0.9	987	0.9	1,175	0.9
Depreciation	2,350	3.8	2,585	3.7	3,055	3.7	3,525	3.7	4,231	3.7	4,936	3.8
Other Fixed Manufacturing Costs	3,055	5.0	3,525	5.0	4,231	5.1	4,983	5.2	5,782	5.1	6,581	5.0
TOTAL FIXED MFG. COSTS	5,970	9.7	6,745	9.6	8,015	9.6	9,354	9.7	11,000	9.7	12,692	9.7
Sales & Administrative Salaries	5,876	9.5	6,463	9.2	7,521	9.0	8,461	8.8	9,401	8.3	10,812	8.2
Advertising	470	0.8	635	0.9	823	1.0	1,058	1.1	1,410	1.2	1,575	1.2
Depreciation	282	0.5	329	0.5	423	0.5	541	0.6	682	0.6	729	0.6
Professional Services	470	0.8	517	0.7	564	0.7	635	0.7	799	0.7	917	0.7
Management Development	235	0.4	259	0.4	282	0.3	306	0.3	353	0.3	400	0.3
Pension	987	1.6	1,316	1.9	1,551	1.9	1,810	1.9	2,139	1.9	2,468	1.9
Other Sales & Administrative Costs	2,212	3.6	2,479	3.5	2,860	3.4	3,280	3.4	3,814	3.4	4,386	3.3
TOTAL SALES & ADMIN. COSTS	10,532	17.1	11,998	17.1	14,024	16.9	16,089	16.7	18,597	16.3	21,284	16.2
OPERATING PROFIT	7,824	12.7	9,179	13.1	11,265	13.5	12,985	13.5	15,577	13.7	18,084	13.8
Interest Expense	907	1.5	907	1.3	907	1.1	907	0.9	907	0.8	907	0.7
Non-Operating Expenses	66	0.1	66	0.1	66	0.1	66	0.1	66	0.1	66	0.1
NET INCOME BEFORE TAXES	6,851	11.1	8,206	11.7	10,293	12.4	12,012	12.5	14,604	12.8	17,111	13.0
Income Taxes	2,912	4.7	3,488	5.0	4,374	5.3	5,105	5.3	6,207	5.5	7,272	5.5
NET INCOME AFTER TAXES	3,939	6.4	4,718	6.7	5,918	7.1	6,907	7.2	8,397	7.4	9,839	7.5



