



Module 8<sub>v1.4</sub>

# **Professional Practice Program**

## **The Strategic Business Plan**



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The Program consists of self-paced study and a 2 day face-to-face workshop. You should complete the self-paced study before attending the workshop. This will take up to 80 hours, depending on your experience. To successfully complete the Program, you must:

- Attend all sessions of the Program,
- Successfully complete the assessment held at the end of the Program.

The assessment comprises of 30 multiple-choice questions and you are permitted 1 hour to complete the assessment. You may refer to your course materials, but you are not to consult any other person in or outside of the room. There is 1 mark per question and you need to obtain at least 50% to successfully complete the assessment.

If you do not successfully complete the assessment, you will be offered an opportunity to re-sit the assessment. If you are still unsuccessful, you will be required to repeat the 2 day face-to-face workshop and successfully pass the assessment. The IPA reserves the right to cancel a member's PPC in the event a member does not pass the assessment.

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### 8.1: Introduction – Business Planning: Creating your Economic System.

The underlying construct of a business is the establishment of an entity that organises an economic system that creates, transfers and captures value. The good and / or services that the entity provides in exchange for money is the vehicle by which the business generates wealth for its owners.

In this module we will examine the importance of the business planning process in establishing and growing your practice. The importance of the planning process to every entrepreneur cannot be underestimated.

Critically the planning process must define your service portfolio, determine your target market and understand your capacity and resources to gain, service and retain your clients. The planning process establishes the architecture for the economic system that your business utilises to create and capture value.

Many small to medium sized enterprises do not have a written business plan. The owners toil away securing sales, delivering services, fulfilling contracts or exploring new products and opportunities to take to the market.

Many businesses are quietly successful in what appears to be organized chaos to the untrained eye. However, the economic system that underlines the business is established in the mind of the successful business owner, although the economic system may not be written down. An established entrepreneur intuitively understands the products they offer, the market it services and the relationship to their cash position.

The difference between a good business owner and a great business owner is their ability to organise actions and change the economic system (the business plan) as required, then communicate the appropriate actions to staff, subcontractors, suppliers, partners and key stakeholders in a method that coordinates the efficient use of resources. The output from the efficient coordination of resources is the generation of residual value. The residual value is the profit and return on investment enjoyed by the business owners.

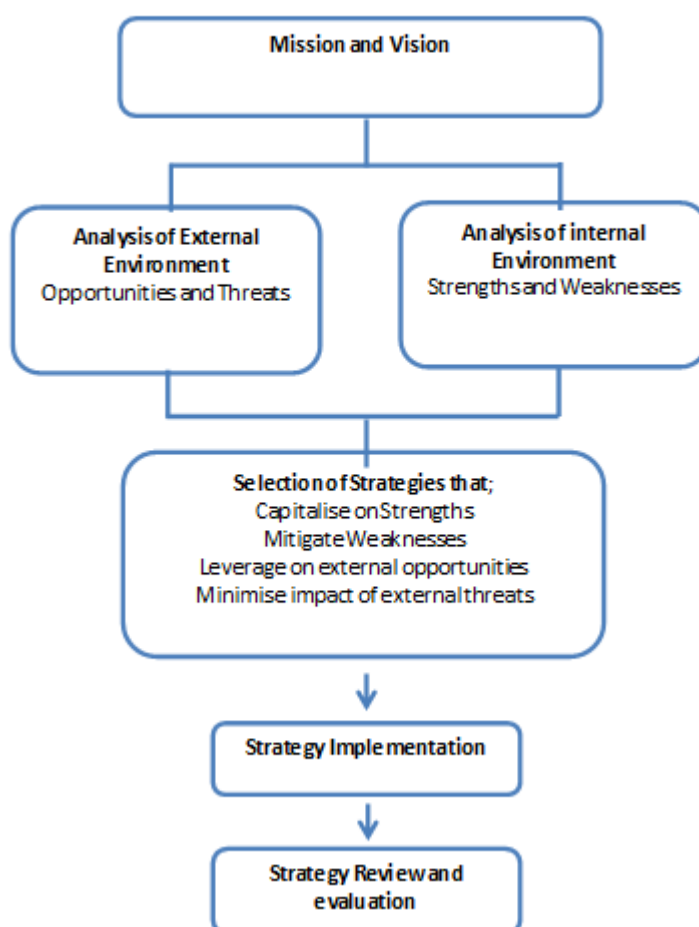
The unfortunate reality of business is that at any one point in time a business, large or small, is either growing or shrinking. The laws of nature provide that nothing remains the same forever. The constant undercurrent of change is what catches out good businesses whether they are corporations or the seemingly unstoppable family business.

Good business leaders are constantly reviewing the market place for changes in the environment and the subsequent impact on their business. This constant monitoring and application of remedial actions is the difference between a growing business and a business that will eventually be swept away by the changing tide of the market place.

In the next section we explore the traditional business planning process and highlight its strengths and weaknesses. We then focus on the fundamental drivers of business health and the practical application of the business planning process.

**Figure 1**

## Traditional Strategic Development Process



The strategic planning process from a corporate perspective can seem reasonably vague, to the small to medium size business owner with the broad conceptual framework and intentions. However, the corporate planning process does provide a framework for action for the small to medium size business owner when the framework is distilled for its core concepts.

The challenge for business owners and corporate leaders is to interpret the framework and apply it to their situation. Due to the uncertainty of the framework combined with the day to day challenges managing time and resources, many public practitioners and small to medium sized business owners never implement a regular business planning cycle. In the next section we outline the process for developing a focused strategic business plan.

### 8.2: The Business Mission Statement

A business strategy is the plan of action taken by an enterprise to obtain one or more of its goals. The traditional business planning model involves a number of steps beginning with the corporate mission and vision. A mission statement is an organization's formal statement of goals. The vision statement is the words that describe the future perception of the business that may not be present to the eye. The mission and vision create the underlying basis from which the major business goals are set and the context from which business decisions are made.

### **Mission and Vision**

The goals and purpose of the organisation

### **Values**

How staff intend to conduct themselves - in effect how the company conducts itself

The mission statement outlines why the company exists and the ideals that it carries in delivering the planned outcomes. A good mission statement acts as a motivating statement and a call to action for staff. Let us take a look at two examples from industry leading organisations in unrelated fields.

Singapore Airlines, is a public company listed on the Singapore stock exchange. Singapore Airlines is a highly regarded international airline that is consistently ranked amongst the best in the world by various industry rating organisations.

The Mission Statement of Singapore Airlines is as follows:

"Singapore Airlines is a global company dedicated to providing air transportation services of the highest quality and to maximising returns for the benefit of its shareholders and employees."

<http://www.singaporeair.com/saar5/pdf/Investor-Relations/Annual-Report/annualreport1617.pdf>

The British Broadcasting Corporation (BBC) is a statutory broadcasting corporation of the United Kingdom with a Royal Charter and is owned by the British public. The mission of the BBC is as follows:

"To enrich people's lives with programmes and services that inform, educate and entertain"

[http://www.bbc.co.uk/corporate2/insidethebbc/howeare/mission\\_and\\_values](http://www.bbc.co.uk/corporate2/insidethebbc/howeare/mission_and_values)

Both of the mission statement examples above include two key elements;

- 1) The purpose of the organisation
- 2) The outcome for the organisations clientele.

In the case of Singapore Airlines, the purpose of the organisation is to provide "air transportation services". The outcome for the clientele is to experience the "highest quality" service.

In the case of the BBC, the purpose of the organisation is to "create programmes and services that inform". The outcome for the clientele is to "enrich people's lives" with content that "educate and entertain".

To establishing a mission statement for your practice you must define:

- the purpose of your products and services
- the outcome that your clients will experience

### 8.3: SWOT Analysis

To determine the organisation actions an organisation needs to take to achieve the mission, the business must understand the current context of business decisions. The context of business decisions is sometimes referred to as the prevailing business environment.

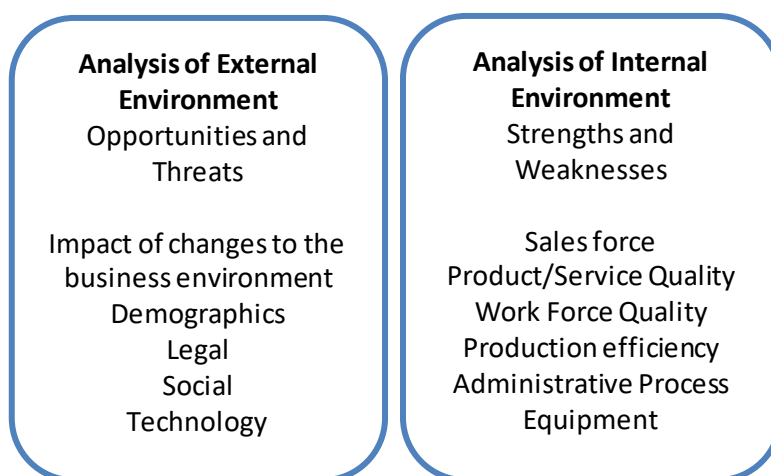
To assign actions for achieving the mission and vision for your organisation in two analysis are done.

- a) First is the analysis of the external competitive environment to identify opportunities and threats.
- b) Second is the analysis of the organisation's internal operating environment is done to determine the strengths and weakness in the business.

Together these are commonly known as a SWOT analysis. From the findings of the analysis a selection of actions is selected to capitalise on strengths and mitigate weaknesses, leverage on opportunities and minimise external threats.

The development of the SWOT analysis is accredited to Albert Humphrey, a chemical engineer, turn management consultant who first developed the long-term planning technique while at Stanford Research Institute.

Once the strategies are selected an implementation plan is produced with resources and actions assigned. While delivering the strategy, periodic evaluations take place to track the relative success of the strategic actions against the overall mission and to monitor for changes in the business landscape that may change.



One of the main outcomes of the external environment analysis is to highlight new opportunities.

The traditional strategic planning process can involve significant investment in research and analysis. Often start-ups and small to medium sized business owners just like new public practitioners may be time and resource poor and may lack the research skills to conduct a detailed analysis. When a SWOT analysis is executed poorly the process may not provide clear actions, direction and measurable outcomes to fundamentally increase revenue or deliver the services valued by the market.



To ensure a productive business planning process the organisation must not lose focus on the fundamental outcomes of any business planning process being:

- To provide clear direction by establishing the context for decision making
- Identify and address the changing market needs serviced by the business
- Be clear on the customer value proposition the business communicates to the market.
- Ensures the organisations has the resources, capability and capacity to deliver on the customer value promise.

Practitioners must avoid developing a strategy that is perceived by staff, suppliers and key stakeholders as unattainable, or unclear. As a business owner you run the risk of “chasing rainbows”. When a business begins with ideals and mission that is not concise or is potentially convoluted and unclear, the potential that the organisation has a poorly defined economic system (i.e. a business plan) is high. The outcome of a SWOT analysis must involve establishing clear findings and actions that assist in calibrating the first element of business; that is to have products and services that satisfy a market need at a profit.

The mission and vision of an organization are important elements in providing direction and focus. In particular it is a great tool for staff motivation and cascading organisational culture and values that flow from the mission and vision. However, a great mission and vision can only be delivered if you have a product(s) that are delivered at a value that satisfies a market need. The twin act of identifying market needs and delivering products and services that are valued by the market place is the only guarantee of generating sales. The underlying equation of business is, no sales will eventually equal no business.

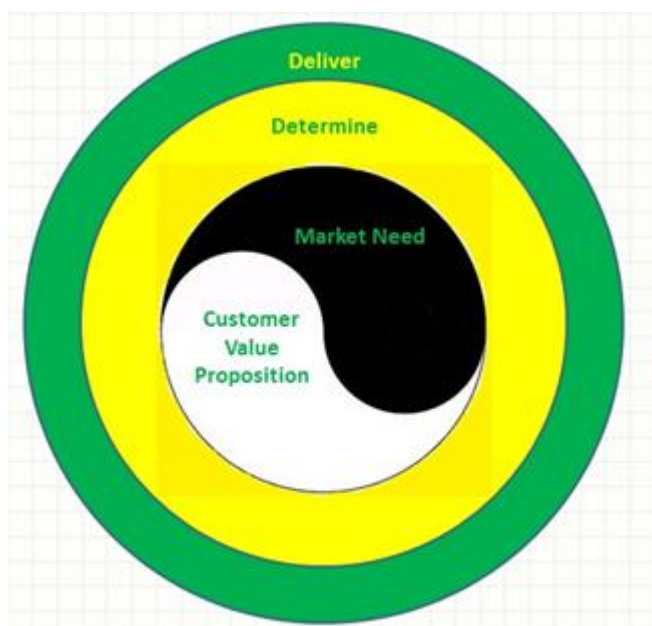
The second key consideration of a SWOT analysis in small to medium size business environment is to be clear on context of conclusions or decisions. In what context are the conclusions drawn from that define the strengths, weaknesses, opportunities and threats and from whose perspective are the conclusions drawn? What is the reference to current market desires, and how valid are the perceived strengths, weakness, opportunities and threats. Is the conclusion based on market research or value judgments of executives and the business owners or are they influenced by accepted social norms and a perceived reality? The trouble is what can be perceived as a weakness may also be a strength.

For example, let's take an education and training organization with a long history of success in the business education market segment. The business is now looking to expand its portfolio into other market segments. Is the long history of success in a business segment strength or weakness? The answer to that question depends on perspective and direction of those debating the question. The organisations' ability to leverage its core skills of delivering training may be considered a strength. However, a weakness can be the market perception of the organisations history in the business segment not resonating with the new market segment. Are there absolute right or wrong answers? Are there solutions and work a-rounds for all possible circumstances? The answer is yes, there are possible solutions to all strengths and weaknesses that present themselves. As a result, the SWOT analysis can be a time-consuming exercise with no solid reference to the underlying aspects of business success. Can the business meet the market needs and satisfy a customer value proposition at a profit in the chosen market place?

#### 8.4: Focused Strategic Planning

From the baseline assumption that every good business offers products and services required by the market, the first step in business planning is reviewing where you stand in the market place with your products and services. Businesses that recede over time are typically those that have not identified the changes in the market they service. Importantly the business has not developed and implemented a plan of action to maintain relevance with their products and services portfolio.

## Focused Strategic Planning Diagram



The Focused Strategic planning process is made up of 4 stages that can be broken into two halves. The first half is to determine the focus of the product or service; the second being the effective delivery of the product or service at a profit.

1. Determine - Market Need
2. Determine - Customer Value Proposition
3. Deliver – Infrastructure
4. Deliver – People, Partner & Process

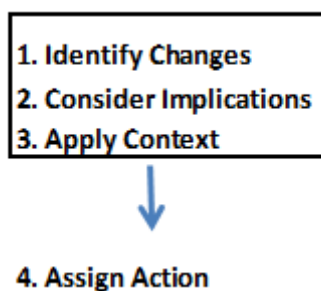
Stage 1	Determine	A	$\Delta$ Market Need
		B	$\Delta$ Customer Value Proposition
Stage 2	Deliver	C	$\Delta$ Infrastructure
		D	$\Delta$ People, Partners & Process

The delta ( $\Delta$ ) at each stage represents the change in each category. The focus of the business planning process is to perform a strategic review to identify the changes in the business environment and innovations available, to update how your client base is serviced. The challenge to all businesses is to remain relevant when the market changes.

A SWOT analysis focuses on both internal and external forces, internal being strengths and weaknesses, while external being the opportunities and threats. The Focused Strategic Planning (FSP) model is also built on the premise that reviewing internal and external forces provide a solid foundation for the planning process. Stage 1 of the FSP model “Determine” provides the focus on external forces while Stage 2 “Deliver” is the review of internal capabilities and relationships.

### Determine - Market Need

Given the constant change in the business environment the first phase in the focused strategic planning workflow is an external analysis to determine changes to the market need. There are three stages in determining changes to market needs for a product or service.



The external analysis begins with:

- Identify Changes in the market by examining the business environment with reference to the market needs;
- Consider the implications on market forces;
- Apply the context by linking the identified changes to the business environment to current operating trends;
- Assign the appropriate action to take advantage of the changing environment.

#### 8.4.1: Identify the Changes – PESTLE Analysis

If a movie could capture the constant change in market need for goods and services, it would be an entertaining movie but it might be hard to follow. Why would the movie be hard to follow? New characters would be introduced all the time without warning. The love story genre might change to a horror story mid movie. The plot could change with the entrance of each character.

The scene's, plots, props and characters in the business world can be reflected as technology, economy, social & cultural, political & legal and environmental influences, otherwise known as a PESTLE Analysis. PESTLE analysis is a framework for assessing the impact of macroeconomic changes on business strategy.

With the passage of time, each influence on the market requires changes and as a direct result, the wants and desires of the market you're servicing will change. The market for the fax machine is an example, every business had a fax machine. Another is the market for small cameras, now almost completely non-existent due to high quality cameras embedded in mobile phones.

Political changes can be in the form of international free trade agreements. The elimination of tariffs and duties have seen major shifts in mass manufacturing from Asia. Changes in state and national tax policy can have significant impact on investment decisions.

Changes in the economic environment include considering how factors such as exchange rates, interest rates, inflation and cost of living impact product pricing and buying habits in your market place.

An example of changes in social norms can be highlighted by the non-acceptance of cigarette smoking in public places, which used to be common place.

The impact of technological change can be highlighted by the way we get our news, use travel agents, watch our television programs and buy our books and even how we may have client meetings over the web with tools like web based screen share meetings.

Changes in legislation provide legal factors that can influence the market place, the changes may be in the form of employment law, licensing, legalisation of accreditation to perform professional task, minimum product safety compliance standards.

The environment factors include changes to accepted environmental norms. An example is in respect to changing trends on accepted use of raw materials or energy sources, for example coal versus renewable energy. Another example is impact of population movements on living standards, road congestion or the pollution in large cities impacting the health and the buying behaviour of the population.

#### 8.4.2: Consider the Implications on Market forces

After identifying the changes in the macroeconomic environment, the next step in a focused business planning process is to distil the implications in your market place. The Porter's five forces model analyses industry structure by considering the following factors:

- **New Entrants** – Consider how the changes to the environment will impact the profitability of the industry. How the market perceives the increases or decreases in industry profitability will impact the number of competitors in the market. Consider if the identified changes to the environment will lower or increase barriers to entry. Will the identified changes benefit larger organisations with economies of scale increasing the barriers to entry, or benefit smaller more nimble competitors decreasing the barriers of entry?
- **Substitutes** - Consider how changes in the business environment will benefit or negate substitute products. For example, the entrance of low cost domestic airlines had a major impact on the interstate passenger bus industry. The low-cost airline model had substituted the bus option providing greater value in time and cost. A more direct example is the substitution of staff via outsourced service providers. What is your strategic position in regards to the outsourced processing services? How will your decision impact your marketing communications?
- **Bargaining Power of Suppliers** – Consider how the changes to the environment will impact the bargaining power of suppliers. Are you a price taker in reference to your supplier of accounting software or do changes to the competitive environment allow you to bargain or change your recommendation of accounting software easily? How do the changes to the environment impact your ability to hire staff and negotiate salary and wages? If your supplier source is dominated by a few large players it is highly likely that you are a price taker. However, if the supply chain is more competitive, then your ability to negotiate will improve.
- **Bargaining Power of Buyers** – Consider how the changes to the business environment impact the bargaining power of buyers. The bargaining power of a buyer is considered high when the buyer is in a position to demand increased services or lower prices. However, when the buyer has fewer options, or there is a hurdle cost of changing suppliers in both time and money, the bargaining power of the buyer is lower. Consider if the changes in the business environment enable your clients to change Tax advisors easier or harder? What are the additional non-monetary cost of changing Tax advisors? Do the non-monetary cost increase or decrease the power of your clientele?
- **Rivalry Amongst Established Firms** – Consider how the identified changes to the business environment will impact rivalry in the market. Are there changes to products or services offered by rival firms? Are there changes to pricing and billing methods, or service packaging for example fixed fee, bundled services and monthly retainers versus time billed annual fee? Is the cost base of rival firms changing and as a result influencing prices and margins of competitors? Is the overall competitive environment increasing or decreasing? In the circumstance where rivalry is decreasing, the opportunity to raise prices in line with increasing demand may arise, providing the opportunity to increase profits.

An example of how to weave PESTLE and Porter 5 forces into your strategic planning is analysis into strategic development is outlined in Fig 2 and Fig 3

**Figure 2**

**PESTLE and Porter Five Forces Questionnaire - Implications on Market Need**

Identify Changes Business Environment		Implications		Answers to Questions	Context		Action
	Porter Five Forces	Consider Questions?	Current Reporting Trends		Determine Impact		
Legal changes	<div style="display: flex; align-items: center;"> <div style="border-left: 2px solid blue; height: 100px; margin-right: 5px;"></div> <div> <p>New Entrants</p> <p>Substitutes</p> <p>Power of Suppliers</p> <p>Power of Buyers</p> <p>Industry Rivalry</p> </div> </div>	Will there be new entrants as a result?	<div style="display: flex; align-items: center;"> <div style="border-left: 2px solid blue; height: 100px; margin-right: 5px;"></div> <div> <p>Customer Feedback/Satisfaction</p> <p>Product Sales Results - Current Trends</p> <p>Quotes - conversion rate by Product/Service</p> <p>Customer Retention - By Product/Service</p> </div> </div>	<div style="display: flex; align-items: center;"> <div style="border-left: 2px solid blue; height: 100px; margin-right: 5px;"></div> <div> <p>Margins</p> <p>Cost base</p> <p>Product mix</p> <p>Cash Flow</p> </div> </div>			
1. ....		How will the change impact new entrants?					
2. ....		Does the change benefit product substitutes?					
3. ....		Does the change encourage or discourage the use of substitutes?					
4. ....		Does the change improve the negotiating position of suppliers					
5. ....		Does the change improve the negotiating position of buyers?					
6. ....	Will the change increase or decrease industry rivalry?						

Name the Change → Consider the Implications → Link the Implication with the Business Context → Assign Action and Timeframe

Figure 2 provides a tabled work flow for isolating changes to market forces can be considered in the context of the specific competitive environment. A table can be created for each PESTLE element to question how the identified changes impact the competitive environment the strategic positioning of your practice. For example, let's hypothetically assume the federal government changes legislation on foreign ownership of farmland to allow greater access to foreign investors with no limitation on the domicile of the owners.

- A: Consider how will the identified change impact the competitive forces for each of the PESTEL factors: Increase price of land? Introduction of new competing farms, foreign farmers may introduce new farming techniques and technology
- B: Reflect on your current business trends and determine the impact on critical factors: Will the change increase or decrease the price of crops or produce
- C: Assign actions with implementation timelines to adapt to the identified changes: What strategic actions/decision are required to capitalise on the changes to the ownership environment of farm land?



**Figure 3**

### Determine Market Needs

Product/Service A - Product/Service Category A  
Setting the scope - Define Current Market need for Product or Services

Identify Potential Changes		Consider Implications	Context		Assign Action
Feedback & Market intelligence Environment & Customer Wants			Current Reporting Trends	Determine Impact	
Political Changes	Product & Service	Does it make your product inferior/redundant/replaceable?  Can we implement the change as product or service improvement?  What is implication of inaction?  Will it improve the negotiating position with suppliers?  Will there be more or less competition as a result?	Customer Feedback/Satisfaction  Product Sales Results - Current Trends  Quotes - conversion rate by Product/Service  Customer Retention - By Product/Service	Margins	.....
Economic Climate				Cost base	.....
Social Changes				Product mix	.....
Technological Changes				Cash Flow	.....
Environmental Changes					.....
Legal Changes					.....

Once you have identified the strategic positioning of your practice in the context of the changed environment, a secondary task is to assess the tactical actions required to ensure your service and product portfolio is competitive and relevant.

Refine and consolidate your conclusions and consider the implications of your PESTEL and Porter five forces assessment on your product & service portfolio.

- Will the changes to the business landscape make your service inferior, redundant or replaced; and what is the action required?
- What are the opportunities that present themselves and what is the new knowledge required to maintain competitive advantage?
- How will the change impact your clients service expectations; and what is the action required?
- Will the change improve the negotiating position of staff, suppliers or clients; and what is the action required?

## 8.5: Determine the Customer Value Proposition

To put customer value proposition into context ask yourself are there any products or stores that you buy from regularly? Then ask yourself why do you make that purchase? The chances are you'll identify the customer value proposition of a product or service which satisfies your personal needs. For example, you may choose to fly Qantas, due to their reputation for safety, stay at a Hilton Resort because they offer a "spa treatment you'll never forget", hire a car from Hertz because you want a "hassle-free fast track experience" and drink Vittoria coffee as they are the "number one pure coffee company".

The value proposition of a product can be multidimensional and take different forms and reflect product quality, reliability, and safety, benefits by association, self-esteem or reputation are just a few examples of customer value proposition.

The customer value proposition for each product a business offers for sale is the primary reason why the target market should buy the products or services. In the context of your business, what is the reason your target market should buy the products and services you offer?

There are six steps in reviewing your customer value proposition of each product or product class. The customer value proposition needs to be consistent in the business marketing plan and the call to action for potential customers. The call to action is the decision to purchase your product or service.

**Figure 4**





### 8.5.1: Consider the Target Market:

The target market is the market segment that provides the greatest opportunity for profit. Your business may be serving the target market successfully but what are the current buying trends, what are the changes in the needs, wants and demands for your target market?

Have the buying trends changed from the year before?

Factors that may influence your decision on identifying your target market include;

- identifiable industry base on your current client mix,
- identifiable industry based on your contacts,
- identifiable industry based on your industry knowledge, experience or insights

For an established firm, internal sources of target market information include; insights from customer feedback, trends and insights from invoicing information and client list. Are there any identifiable trends from your top 10 or 20 clients or your income by service mix; are there trends in particular services, are you serving more or less clients than last year? Have the sales margins grown or shrunk?

Each question provides a different perspective on your target market trends; these trends can provide an invaluable snapshot of future buying habits in your chosen market segment.

### 8.5.2: Business Positioning

In business positioning there are four generic strategies that businesses may choose to channel their resources. The factors to consider in choosing a business market position include the natural strengths and resources that provide a competitive advantage.

Manufacturing in the US and Australia is consistently challenged by economies of scale and cheap labour resources in abundance in Asia. The lower cost of labour has provided many companies based in South and East Asia with a natural competitive advantage. However, it is possible to remain a successful local manufacturer where a business positions differentiated quality, speedy local service networks and uncomplicated buying and implementation experience.

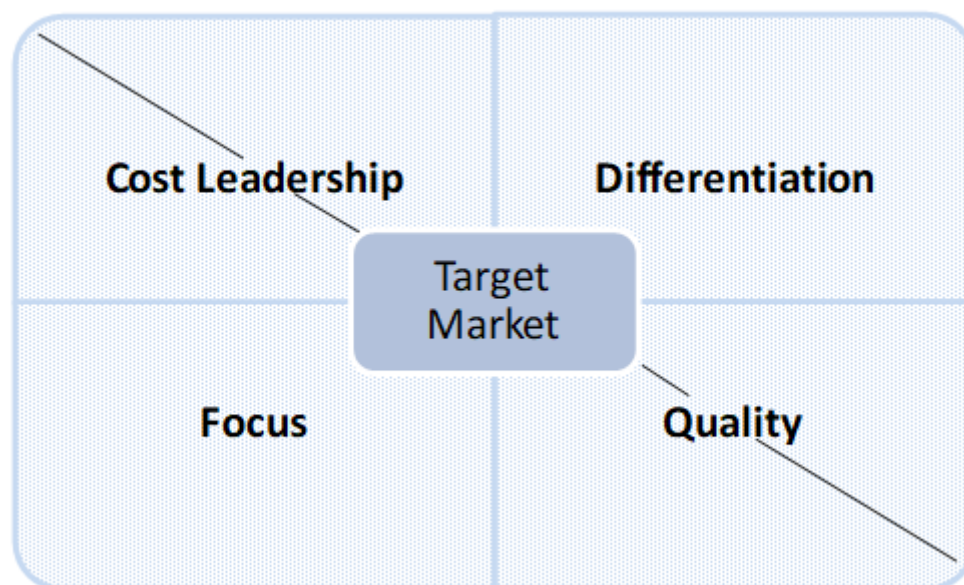
A successful local manufacturing business faced with competition from cheaper imported products can compete on quality and by delivering products tailored to customer specification. Manufacturing bespoke products to tailored product specifications is a competitive environment that mass producers located thousands of kilometres away with communication disadvantages find inefficient and negates their natural advantage.

The natural competitive advantage of manufacturers in low labour cost countries is to commoditise products and competing on price. Manufacturers who are able to develop a bespoke product from a modularised manufacturing process can compete successfully with cheaper imported products.



There are 4 generic business positioning strategies.

**Figure 5**



- **Cost Leadership** – Out performing competitors by producing goods and services at a lower cost while still meeting acceptable service and functionality expectations.
- **Differentiation** – Achieving competitive advantage by creating products or services that have a unique characteristic or perceived uniqueness. The ability to satisfy customer needs in a way your competitors cannot.
- **Focus** – Concentrating on delivering specific products and services for a niche market. The niche may be defined by customer type, market segment or geography.
- **Quality** – Positioning as leaders in delivering high quality goods and services through, particular expertise, unique process, skill or input.

### 8.5.3: Consider Market Expectations

Have the expectations of customers changed. Was what was considered a premium service now just standard? The international airline industry is a competitive market with constant change. Since in seat personal video entertainment (PVE) was introduced to economy class in the mid 1990's, any "full service" airline without PVE today would be considered a substandard service. Leading international airlines today have introduced Wi-Fi, have USB connections for iPods, in-seat power and more entertainment option that anybody could consume in a week let alone one long haul flight. In Business class a seat to bed conversion has also become standard. It wasn't too long ago that many full-service airlines didn't offer a seat-bed conversion in First Class, let alone Business Class. The question for your business is what is the market expectation? Are add on services which were considered premium yesterday now standard?

#### 8.5.4: Points of Parity

Points of Parity are the product/service features that come up to market expectations. Do your products and services meet what is considered the minimum standard amongst your customers when they compare what you offer against your competitors? The basic condition of point of parity is does the products and services offered meet what is considered necessary to be a legitimate alternative in the market place. Based on the market expectations identified in step 2, do your products and services meet the features considered standard by market expectations?

E.g. Qualification of Professionals, Process Certification, features, functionality, timeliness of returns, timeliness of returned calls, reliability of advice, cloud accounting, online meetings, online booking of meetings, for companies offering products - minimum product warranties

#### 8.5.5: Points of differentiation

Points of difference are features and attributes the customer positively associates with the product or service offering. Product differentiation can be in the form of features, performance, turn around time, quality, design, presentation of information, style, reliability, or durability. In the case of a service delivery business the points of difference may be in customer interaction, customer response time, product personalization, flexibility in ordering, booking meetings, maintenance of files and servicing. How your customers evaluate and positively associate your products and services are the points of difference and competitive advantages you take to the market place.

#### 8.5.6: Product Pricing

Determine the pricing goals for the product. The overall pricing goals for the portfolio of products offered by a company need to be consistent with step 2 in regards to business positioning. The pricing goal for a product may be based on;

- Quality leadership
- Cost leadership
- Market Share
- Market Skimming

In that regard the price the market bears may be determined by the prevailing customer appetite in a focused market segment or the differentiated product group.

The relationship of price and demand otherwise known as the elasticity of demand will determine your pricing options. For example:

Elastic Demand - airlines such as Jetstar and Tiger Airways create demand through their pricing for a market that otherwise would not have flown to their destination or travelled at all. The business model of low cost airlines allows them to sell the underlying product, (travelling from one point to another by air) at a lower cost than full service airlines. The large change in demand through price movement is called elastic demand.

Inelastic Demand - cigarette and some pharmaceutical companies operate in an inelastic market, in that the demand for the products tends to be relatively stable even with movements in price.

Short term pricing considerations may also be considered. A short-term price of products may be to enable:

- Increasing market share
- Maximizing profits
- Minimizing losses

The ultimate pricing decision will need to be consistent with the customer value proposition and the marketing position. For example, let's consider the motor vehicle market.

The motor vehicle market is a highly competitive multi-billion dollar industry. If a manufacturer was to enter the new car market they would first have to define their market segment. An example of a market segment would be the sports utility vehicle market (SUV).

A car manufacturer entering the SUV market segment will then need to determine their price position. The price position would then have to be consistent with their product offering, features functionality, warranty and service offered by their dealership network. For example, Land Rover, occupies the luxury market spectrum for SUVs. Jeep occupies the mid-market price position, while Great Wall positions themselves as a low-cost SUV manufacturer.

You will need to decide for your firm the market segments you wish to compete successfully in, this may be Insolvency, Audit, Company Tax, Individual tax, Bookkeeping or BAS then consider consistency of your pricing and your marketing message. We will explore marketing strategies further in the Marketing Your Practice module.

Another critical element of a pricing decision is a firm understanding of the ultimate impact on profitability. Understanding margins, break-even position and cash flow implications of pricing decisions is central to the viability of every business. We will explore this further in the Financing your Practice module.

You must determine if your business is delivering a customer value proposition at a profit; Consider the six points outlined above on an annual basis at a minimum. Begin with the review of your target market/s; assess the alignment of your business positioning; considering the current market expectations; reflecting on the product offering from points of parity and differentiation; then matching the product pricing with the set parameters while ensuring that products and services being sold at a profit.

## **8.6: Deliver the Product or Service Promise**

Once you have determined your target market the second stage of a focused strategic planning process is to define your capacity and the resources available to you to deliver the customer value promise.

Understand your capacity and the resources available to you to deliver your client work. It is critical that you meet the standards communicated by your marketing position. That is, deliver a standard of service expected by your client that is aligned with your service or product pricing.

Consider the service workflow table below for preparing a company tax return. Assume the workflow below reflects that employed at your firm.

<b>Service Workflow Check List</b>	<b>Person Responsible</b>	<b>Estimated Time</b>
New client – Introduction meeting	Partner/Accountant	
Letter of Engagement	Prepared by Admin Checked by Accountant	
Source Documents Check List	Prepared by Admin Checked by Accountant	
Source Documents Scanned & filed	Admin	
Review of Source documents	Accountant	
Review Prior Year Returns	Accountant	
Preparation Reconciliations Required	Prepared by Junior Acct Reviewed by Accountant	
Client questions and Outstanding documents	Accountant	
Tasks related to preparation of prior year adjustments and documentation required	Accountant	
Verification of Tax estimates and Process request for extensions	Partner/Accountant	
Forward Tax projections done, adjustment for prior year liability and returns completed and differenced documented and explained.	Partner/Accountant	
Tax papers assembled and prepared for client sign off	Prepared by Junior Acct Reviewed by Accountant	
Client meeting - Tax Strategy Advice delivered, Tax papers signed. Projected Tax commitments communicated along with timing of payments and estimated liabilities	Partner/Accountant	
Client File updated, working papers noted accordingly and completed and per IPA PP Checklist.	Admin	

Consider on average, how long does it take for you to work through each element of the Service Workflow Checklist above? Add up the time estimated for a standard company return then apply the assigned chargeable hourly rate for each task to estimate the average fees you can charge per company return.

The average time calculated for producing the return can be divide the total hours available to estimate the capacity for the total number of returns your firm can produce. The exercise in effect estimates the total potential income that your firm can derive limited by the resources available to you or factors of production, for example staff capacity or office accommodation capacity.

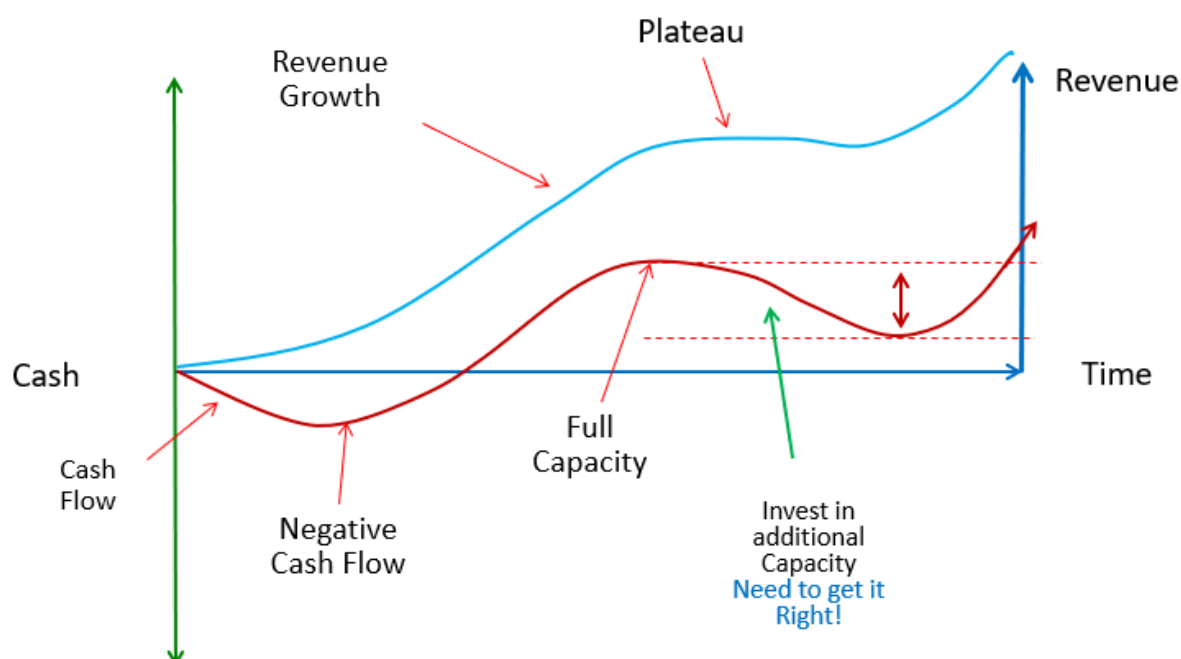
Other important factors to consider are non-chargeable time such as time allocated for marketing and networking, training, office administration or staff mentoring and project management annual leave and other leave that will reduce the available hours to complete tasks. We will explore the concepts further in the Financing Your Practice module.

The important link between understanding your marketing position and your capacity is highlighted in the Cash v Time Chart below. All businesses are constantly managing the time v cash equation. If an entrepreneur launches a business from scratch, often they are in a position where there is a limited amount of resources available. The resources available to the entrepreneur to cover living expenses provides an equation to estimate the time available to ensure the successful launch of their firm. The entrepreneur must gain a level of new clients for the product or service offering to create the sustainable economic system. The sustainable economic system will ensure the successful start-up of the firm. The sustainable economic system is the Business plan.

The same scenario is faced by entrepreneurs in all industries. All products have a life cycle, require an investment of resources to launch will eventually reach capacity then require reinvestment or renewal.

**Figure 6**

**Cash v Time Chart.**



### 8.6.1: Focused Business Planning

A critical aspect of a focused business planning process is question, understand and adapt to the changing business environment that impacts your ability to deliver products and services competitively.

The 4 areas to consider include:

### 8.6.2: Infrastructure Considerations

How will the changes identified in the PESTLE and Porter 5 forces analysis impact your infrastructure?

Change	Action
Will the changes impact the software you use to prepare or deliver client services?	
Will new technology impact the way your staff work, their hours or their availability?	
Will changes in local infrastructure or population movement impact staff from a travel and work life balance perspective?	

### 8.6.3: People Considerations

How will the changes identified in the PESTLE and Porter 5 forces analysis impact your staff?

Change	Action
Will the changes impact the qualifications required by your staff?	
Will new technology require new skills and further training?	
Will new the changes require rethinking the allocation of tasks and responsibilities or create new roles in the business?	
Will the changes make old skills and knowledge redundant?	

### 8.6.4: Partner Considerations

How will the changes identified in the PESTLE and Porter 5 forces analysis impact your infrastructure?

Change	Action
Will the changes provide opportunities to build new marketing alliances partners?	
Will growth in related field require new formal partnerships or alliances?	
Will the changes make old alliance and partnership impractical or irrelevant?	

### 8.6.5: Process Considerations

How will the changes identified in the PESTLE and Porter 5 forces analysis impact your infrastructure?

Change	Action
Will the changes identified through technology or the introduction of new services provide opportunities to streamline processes?	
Will changes identified require new marketing techniques or initiatives for the new business sales process?	
Will changes in legislation or compliance requirements require the introduction of new processes or technology?	

### 8.7: Focused Strategic Planning Conclusion

In conclusion, The Strategic Business Plan for your practice needs to consider your focused position in the market place and assign actions to move with the prevailing market forces.

The Strategic business plan involves:

- Defining your mission with your product and customer experience outcome.
- Underpinned by your mission with by defining your customer value promise.
- Identify the market segment in which you will promote your customer value promise with a consistent marketing message and price position
- Consider the prevailing macroeconomic market forces the impact on your practice and the actions you need to take
- Align your resources and understand your capacity to deliver the customer value promise
- Consider how the prevailing market forces will impact your business processes and assign actions to benefit from the identified market changes.

### 8.8: Questions to consider for your Strategic Business Plan

#### 8.8.1: Mission and Vision

- What is the product or service your business offers?
- What is the planned customer experience or outcome from your products or service?

Combine the answers for these 2 questions to write your mission statement

### 8.8.2: Customer Value Proposition

- What is your target market or markets?
- Who are your top 5 competitors?

### 8.8.3: Pricing Strategy, Cost Leadership, Differentiation, Focus or Quality

Product / Service 1

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Product / Service 3

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Product / Service 5

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Product / Service 2

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Product / Service 4

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Product / Service 6

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### 8.8.4: Competitor Points of Parity

Product / Service 1

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Product / Service 3

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Product / Service 5

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Product / Service 2

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Product / Service 4

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Product / Service 6

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### 8.8.5: Competitor Points of Difference

Product / Service 1

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Product / Service 3

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Product / Service 5

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Product / Service 2

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Product / Service 4

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Product / Service 6

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### 8.8.6: Pricing Objective

Is it cost leadership, quality leadership, market share, market skimming or a loss leader?

Product / Service 1

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Product / Service 3

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Product / Service 5

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Product / Service 2

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Product / Service 4

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Product / Service 6

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