

STRATEGIC PLAN REVIEW & RECOMMENDATION

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ABC Company

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COMPANY BACKGROUND

ABC Company (ABC COMPANY), founded in 1994, is a well established CPA firm with offices in Santa Rosa, [California]. It's founder, James H. Ernst, has been a CPA since 1980, working in both public accounting and private industry. The firm has experienced constant growth since its inception and has been gradually expanding its staff and services to provide ancillary services to its client base – financial planning, mortgage loans, business consulting, and human resource management to name a few.

Most recently, the firm of ABC Company was named Sonoma Business magazine's "Best of Sonoma County Readers' Survey" winner in the category of CPA firms.

Current Mission Statement

"To provide timely and accurate professional accounting and tax services to our individual and business clients. Our goal is to meet or exceeds the needs and expectations of each of our clients in a thoughtful and professional manner.

We pride ourselves on our excellent client service" (www.ernst-cpa.com).

Proposed Mission Statement

ABC COMPANY is dedicated to providing the highest quality professional financial and related services for and guidance to our clients. These services include tax planning and preparation, IRS and FTB audit representation, bookkeeping and accounting services, financial planning and investment advisory services, business consulting, operational audits, business plans and forecasts, strategic planning, human resource management and mediation services.

Our firm provides professional services for individuals and small businesses. Additionally, we are one of the few firms that offer services to homeowners' associations – including monthly bookkeeping, year-end audits or reviews and tax return preparation.

In addition to being a traditional “brick and mortar” business, we have established a connection to the Internet as we endeavor to provide the highest quality professional service and guidance to our clients. We've designed our Website for clients to use as a "one-stop shop" for many of their immediate financial questions and concerns.

Our goal is to meet or exceed the needs and expectations of each of our clients in a thoughtful and professional manner.

The mission statement is very important to any organization. For ABC Company, the current mission defines the following:

- Basic type of services being provided; and,
- Primary Market.

The proposed mission statement will:

- Expand upon the type of services being provided;
- More clearly define the target market; and,
- Provide insight as to the principal technology being used.

Corporate philosophy is also evident in the mission statement – the firm has committed itself to its customers by striving to “provide the highest quality...professional services for and guidance to our clients” (www.ernst-cpa.com).

Strategic Priorities (Goals & Objectives)

- Exceed Customer Expectations
- Continue to Develop and Empower People
- Continue to Grow into Related, Complimentary Lines of Business: i.e., Financial Planning, Asset Management, & Investment Advisory Services, Mortgage Loans, Human Resource Management
- Continue to Improve Processes
- Stay Abreast of Industry Trends
- Increase Revenues 20% per Year for the Next Three Years
 - Bookkeeping
 - Financial Planning and Asset Management
 - Mortgage Loans

Corporate Culture

“Culture is the bond, the understanding that holds the organization together, even as individuals in the company express themselves differently” (Pottruck & Pearce, 27).

Robert Jacobs states that there are three critical factors an organization must realize in order for its strategic initiative to be successful: courage, clarity and commitment.

Courage is needed by Ernst to let go of outdated, less productive ways of doing business that have been uncovered during the process of internal/external analysis, industry analysis, etc. Further, courage is necessary to “shift investments of time, money and energy to support a strategic change initiative” (Jacobs, 289). Courage (higher level of risk taking/tolerance) is also needed to move ABC COMPANY forward “into an uncertain and unpredictable future at an accelerated pace” (Jacobs, 289). Ernst will need to continue focusing on accelerating the pace of entry into the areas of mortgage loans, financial planning and asset management, investment advisory services and human resource management.

Ernst must also continue to communicate clarity of purpose. The words and actions, as well as follow up initiatives must be in alignment with the key business priorities that the firm is proposing. Failure to be clear can result in mixed messages being sent throughout the firm and could potentially undermine the ability to reach the strategic objectives.

In evaluating the current culture of the firm, it is evident that the culture is one that is team oriented and supportive of the vision of the firm. Ernst has clearly communicated his vision and values and the staff that is in place shares them.

ENVIRONMENTAL ANALYSIS

It is the role of the firm's Owner, James Ernst, to assess the environment in which the firm functions. This includes understanding the impact of competitors, suppliers, increasingly scarce resources, government agencies and regulations, and customer preferences (operating environment). Additionally, Ernst must also understand how economic and social considerations, political priorities, and technological developments impact his business (remote external environment). Therefore, in order for ABC COMPANY to be effective in the realization of its strategic priorities, it will need to examine its external environment. Figure 1, on page 8, diagrams items for consideration when taking a look at the industry environment.

Operating Environment

While all components of the operating environment are important, special focus on the following components is necessary:

- **Increasingly scarce resources.** There has been a 30 – 50 percent decline in the number of students majoring in accounting and the quality of those students has also declined. Thereby creating a shrinking labor pool of qualified CPAs (McCrary, 2001).

- **Government agencies and regulations.** How will governmental agencies (Internal Revenue Service (IRS) and Franchise Tax Board (FTB)) regulations impact the organization from a tax standpoint as well as the ability for CPAs to continue to provide investment advise, manage assets and act as a financial planner moving into the future?

Business strategies will need to be developed to address the impact of the above components.

Remote External Environment

In the remote environment, attention needs to be focused on the following and a business strategy formulated to address their impact:

- **Economic factors.** How will buyer purchase of service patterns effect the firm?
- **Technological factors.** How will computer-based programs for financial planning, asset management, bookkeeping, etc. (Turbo-Tax, Quicken, Quick Books, etc.) continue to be improved and what will the impact be short-term and long-term for the firm?

Industry Analysis

In a recent survey of California CPA members, it was interesting to note the following:

- 72 percent of the members responded.
- Of the 72 percent, 77 percent expect their firms to be doing even better five years from now.
- Key challenges included increased difficulty in hiring and retaining qualified staff, increased pressure to manage business better, increased pressure to offer expanded range of services and products, and increased competition from other professions (California CPA, 2001).

Keeping abreast of industry information will be critical in the strategic planning process. ABC COMPANY will also need to continue to examine the following five questions:

1. "Which part of the financial and/or complimentary lines of business corresponds to our firm's goals?"
2. What are the key ingredients of success in that part of the industry?"
3. Does our firm have the skills needed to compete in that part of the industry? If not, can we build those skills?"
4. Will the skills enable us to seize emerging opportunities and deal with future threats?"
5. Is our definition of the industry flexible enough to allow necessary adjustments to our business concept as the industry changes" (Pearce & Robinson, 94)?"

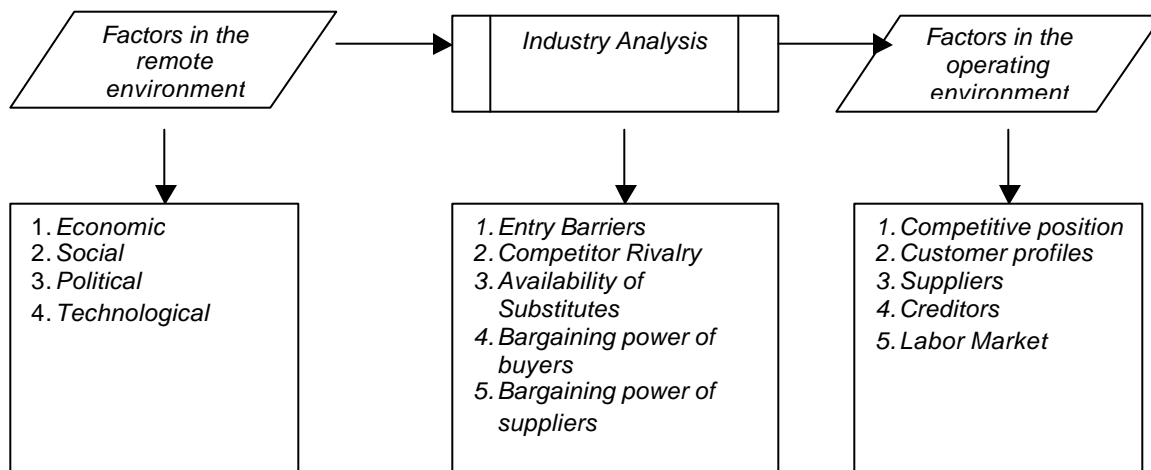


Figure 1 – Industry Environment

STRATEGY FORMULATION

Strategic Analysis and Choice

ABC COMPANY has selected a combination of differentiation and focus as its generic strategy. The firm has designed one of its services, bookkeeping, to appeal specifically to homeowners' associations and is attempting to build customer loyalty by providing a high quality product in the least amount of time (differentiation). Additionally, ABC COMPANY is tailoring its service offerings (i.e., offering financial planning, asset management, investment advice, mortgage loans, etc.) to meet the needs of its small-to-medium customers (focus). With its competitive strategies in

place, ABC COMPANY can now focus on the grand strategies it will need to implement in order to reach its stated business priorities.

Based on its stated objectives, ABC COMPANY should continue to review and incorporate the following grand strategies as part of its strategic profile:

- **Market Development.** Attract other market segments by developing services that appeal to them.
- **Product Development.** Continue to expand service offerings.
- **Horizontal Integration.** Acquire other CPA firms to gain additional market share and reduce competition.
- **Concentric Diversification.** Consider acquiring businesses that are related to the firm (independent financial planning firms, independent mortgage loan companies, etc.).
- **Strategic Alliances (alternative to Concentric Diversification).** Consider establishing relationships with complimentary lines of businesses (i.e., human resource management firms, stockbrokers, etc.).

Organizational Strategy

Based on the stated business priorities, the organizational strategies that ABC COMPANY has selected include continued growth through diversification. The firm has realized that the “traditional” CPA is a declining industry and has researched and begun offering industry related services (financial planning, asset management, mortgage loans, etc.) to attain a competitive advantage in a changing market.

Forecasting Tools & Techniques

To continue to improve its profitability, ABC COMPANY should consider implementing strategic planning forecasting tools and techniques. Specifically:

- **Market Opportunity Analysis.** Many of the local, independent CPA firms that are competing for clients have greater financial resources, better capabilities for market research and larger staffs. As the industry continues to change, resources will need to be committed to maintain or gain market share. A market opportunity analysis will keep the firm abreast of market factors in the economy and trends in the

industry that will affect the demand for and marketing to a more sophisticated client base.

- **Benchmarking.** Benchmarking will allow ABC COMPANY to comparatively analyze competitor service offerings and strategic positions of its competitors. The CPA industry has region specific trade organizations and could be used as a tool to gather supporting documentation.
- **Situational Analysis (SWOT).** To improve its performance, ABC COMPANY should also evaluate, past, present and future data to identify internal strengths and weaknesses and external threats and opportunities (See Figure 2, page 11).

Other forecasting tools that might be useful include environmental scanning, strategic gap analysis, technological forecasting, and financial forecasting.

Organizational Structure

Because ABC COMPANY is a small firm, it should continue to utilize a functional organizational structure. This will allow continued use of the latest technical skills and the ability to continue to develop the highest level of efficiency. As the firm expands its services offerings and generates additional clients it may want to consider a divisional or strategic business unit structure to meet the increased coordination and decision making requirements that will result (Pearce & Robinson, 403).

STRATEGIC IMPLEMENTATION & CONTROL

ABC COMPANY will need to keep three things in mind when implementing any the strategies identified to meet its business priorities – budget, measurement and compensation.

A budget is pretty self-explanatory – the firm will need a constant (budget numbers) in which to measure against in determining financial success. On a broad brush, the Owner will need to understand revenue per employee, revenue per customer, profit margin, and the ratio of revenue to operating expense versus investment in the future. While one would expect a CPA to understand these ratios,

they are not written down anywhere for ABC COMPANY and need to be. It is the age-old irony of the cobbler who has no shoes.

In addition to measuring financial success, the firm will need to review and/or rethink what traits, skills and behaviors it will need to attain success as an organization. Individual performance measurements will need to be closely aligned with strategic business priorities. Once this process has been accomplished, Ernst will need to provide individual and team incentives for risk and growth, and budget accordingly. Part of the compensation process will also need to include performance objectives, measurements of success and timeframe for completion.

To set the performance objectives, tactical and action plans will need to be created and communicated to the staff. Tactical and action plans (operational controls) will be the tools used to attain the business priorities that have been established. Tactical and action plans will be used across all business disciplines – finance, marketing, human resources, etc. All plans of action must be reviewed and evaluated to ensure that the firm's business priorities are being met.

SWOT Analysis for ABC Company

Figure 2, SWOT Analysis

Strengths

- *Current Technology*
- *Ability to work in multiple computer-based accounting programs*
- *Broad offering of services*
- *Organization is a learning organization*
- *Willingness to adapt to change*
- *Pays attention to industry trends*
- *Experience level of Principal and staff*
- *Quality of service*
- *Personalized Service*
- *Community reputation*

Weaknesses

- *E-commerce capabilities are limited*
- *Limited financial resources*
- *Lack of sales personnel*

Opportunities

- *Create method to use client feedback to develop/improve new services*
- *Increase sales by linking to complimentary websites*
- *Provide clients with the opportunity to view financial statements online*
- *Changes in tax laws*
- *Ability to provide additional services - financial planning, mortgage loans, human resource management, etc.*

Threats

- *Competition has already successfully expanded service offerings*
- *Tighter profit margins*
- *Changes in tax laws*
- *Limited financial resources*

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