

Planning for Profit

Managing Change Northwest
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Successful Business

- ▶ Ernesto Sirolli- Enterprise Facilitation
- ▶ Components for a successful business
 - Production
 - Marketing
 - Finances
- ▶ No one does all 3 well

What is your Goal

- ▶ To produce a profit?
 - Why
 - To be financially secure and provide for our family needs
- ▶ Do you know where you are going?
- ▶ How do you create a vision for life?

Holistic Management

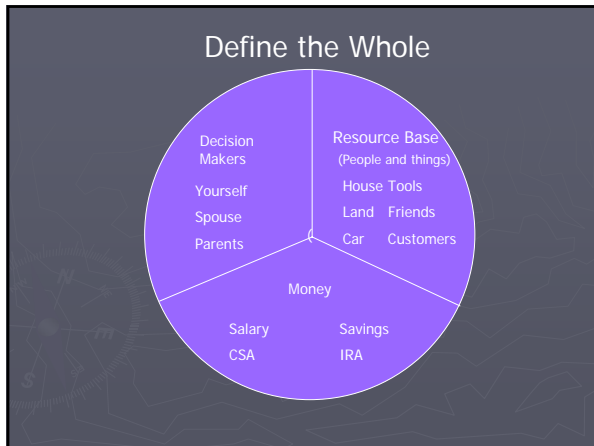
- ▶ Goal driven decision making process
 - Economically
 - Environmentally
 - Socially
- ▶ The Goal provides the destination

Holistic Management Principles

- ▶ Nature Functions in Wholes
 - Relationships between different aspects of the whole
- ▶ Understand the Environment you Manage
 - Water cycle, mineral cycle, energy flow
- ▶ Test your decisions
- ▶ Monitor for Results – Assume you are wrong

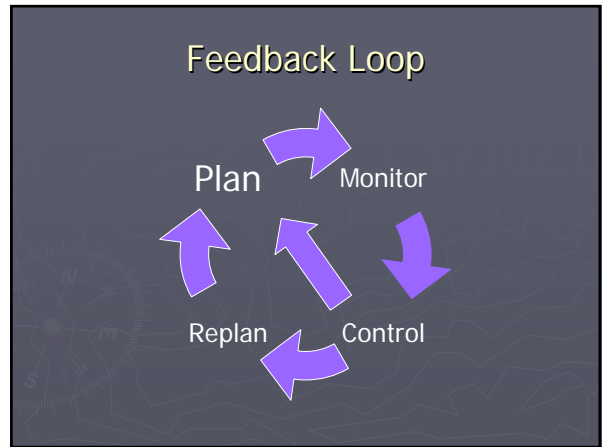
Developing Your Holistic Goal

- ▶ Define the whole under management
 - Decision makers
 - Resource Base
 - Money



- ### Developing Your Holistic Goal
- ▶ Develop a Holistic Goal
 - Quality of Life
 - ▶ How do I want my life to be?
 - ▶ What motivates you?
 - Forms of Production
 - ▶ What are you willing to do
 - Future Resource Base
 - ▶ Future Landscape
 - ▶ Future community
 - ▶ How you have to behave

- ### Moving toward your Holistic Goal
- ▶ Test Decisions
 - 7 testing guidelines
 - Will this decision move toward your Holistic Goal
 - Is it Economically, Environmentally, Socially Sound
 - ▶ Monitor
 - Assume you are wrong
 - Early warning signs



- ### Common Causes of Poor Profitability
1. Tend to be over optimistic about income
 2. Allow expenses to rise to anticipated income level
 3. Borrow Heavily against optimistic income level
 4. Fail to plan ahead ON PAPER

- ### What is Profit?
- ▶ $\text{Income} - \text{Expenses} = \text{Profit}$
 - ▶ **NO**
 - ▶ $\text{Income} - \text{Profit} = \text{Expenses}$
 - Pay your self First
 - Overcome human tendencies

Holistic Financial Planning

- ▶ Profit is not a test
- ▶ Profit is in your Holistic Goal
- ▶ Profit = price – cost of production
- ▶ Price is governed by:
 - Demand
 - Marketing
 - Creativity

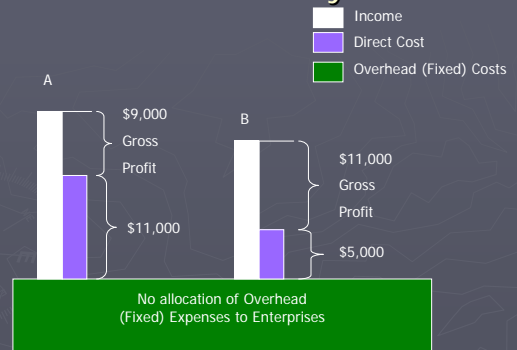
Financial Planning Process

1. Plan the Income
 - Evaluate current enterprises
 - ▶ Testing guidelines
 1. Gross profit analysis
 2. Weak link – financial
 - Weakest link in chain of production

Gross Profit Analysis

- ▶ Which enterprises contribute the most to covering the overhead (fixed costs) of the business
- ▶ Shows you which enterprises are likely to generate the most profit
- ▶ Evaluating potential new enterprises
- ▶ Evaluate how current enterprises are performing
- ▶ Risk Assessment

Gross Profit Analysis



Weak Link Financial

Chain of Production



Financial Planning Process

2. Plan the profit
 - ▶ Places a ceiling on how high your expenses will raise
 - ▶ Challenging – 10-20% - maybe 40-50%
 - ▶ Debt load

Plan the Expenses

- ▶ Type of expenses
 - Wealth generating expenses – increase your income
 - Inescapable Expenses – cannot change
 - ▶ moral obligation – property tax, business buyout
 - Maintenance Expenses – essential to running business & maintaining present income levels

Plan the Expenses

- ▶ IF Profit plus expenses greater than income
 - Make Adjustments
 - Reduce Maintenance expenses first
 - Marginal Reaction test on Wealth Generating Expenses
 - Last Resort - Adjust Profit down – Conscious Decision

Monitoring

- ▶ Monitor Income and Expenses Monthly
- ▶ Control the Plan
- ▶ Replan if needed

Plan the Planning

- ▶ Choose One Person to coordinate the planning process
- ▶ Schedule specific dates & time for meetings
- ▶ Start Planning in Fall for Next Year

Summary

- ▶ Define the Whole Under Management
 - Key decisions makers
 - Resource base
 - Money
- ▶ Know where you are going
 - What is my passion in life?
 - How do I want my life to be?
 - Create your vision – Holistic Goal

Summary

- ▶ Remember the Tripod
 - Production
 - Marketing
 - Finances
- ▶ Know the passions of the other key decision makers

Summary

- ▶ Financial Planning
 - Income – Profit = Expenses
 - Profit is not a Test
 - Plan the Income & Evaluate Enterprises
 - Plan the Profit: Challenging & Achievable
 - Plan the Expenses & Adjust as Needed
 - Monitor * Control * Replan

Resources

- ▶ Managing Change Northwest
 - Assist with Goal Setting
 - Financial Planning
 - Biological Monitoring & Grazing Planning
 - Consensus Building
 - Planning a series of Workshops – Fall/Winter 2007-08
- ▶ Holistic Management International
 - www.holisticmanagement.org