THE FIVE YEAR PLAN—A NUMBER GAME?

Incorporating sound business logic into long-term planning.

BY MATHUR RAVIKUMAR

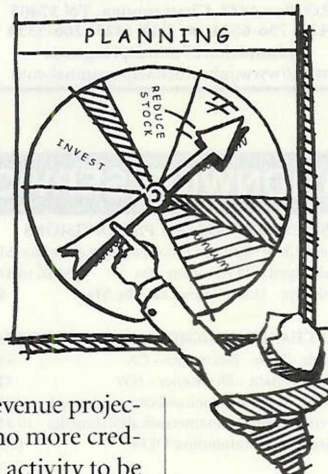
Scene 1: San Francisco International Airport. A marketing executive from a software company is busy updating his five-year plan using spreadsheets and PowerPoint slides. The plan contains the company's major products, last year's revenue figures, and 25 percent annual increase projections for the next five years. The numbers are too round and the growth is too consistent to be credible. It is obvious no great analysis was done and little logic is attached to these projections. The five-year plan is just a routine exercise to be completed and shelved until next time.

Scene 2: A middle-level manager at a winery is preparing her group's five-year plan for the upcoming executive planning meeting. She is certain sales will continue to grow, but there is no way to predict how the marketplace will behave six months from now, much less five years. So she picks some reasonable numbers and spreads them over various products to arrive at revenue projections. The quarterly updates of the plan will be no more credible than this original. It's just one more routine activity to be completed and forgotten each quarter.

These scenes demonstrate an admirable desire to plan for the future. But the plans have little credibility, even among the people who create them, because no one can predict trends five years into the future. Even companies who say they believe in five-year plans seldom put their money where their plans are.

During the last century, long-term planning was an exercise done by an elite group of corporate executives who projected distant future numbers upon products and revenues. Such activity is still favored in giant organizations. But smaller organizations go by the feel of the marketplace as interpreted through the day-to-day customer demand. They concentrate on being agile and flexible so they don't have to make five-year plans. Still, these CFOs need some data on revenue trends so they can predict basic profitability or lack of it. The realities of the process are that market conditions and expectations change quickly and plans are outdated by the next quarter. Also, long-term plans seldom concentrate on the technology resources required nor do they address the need to develop human resources.

As management teams generate long-term plans, new markets are emerging overseas and foreign suppliers and products are gaining ground with Internet market exchanges. Business processes change overnight due to online trading and communications. Being flexible and responsive to change is paramount. But there is a way to link long-term plans to monthly, if not weekly, operational plans.



Software tools are available to help manage long-term planning. With this software, companies can easily link their revenue growth to resource requirements and these relationships can generate or modify plans as quickly as market conditions change. The software will define the matrix between revenue increases and resource requirements. Following are some of the major benefits of using this specialized software for enterprise-level planning:

- There is an active matrix link between the revenue growth and resource needs.
- Using software tools for planning creates synergy among users through group level participation and interactions. The invisible silos that stifle communication and lead to suboptimization are overcome.
- The non-availability of resources, for any time period, will immediately relate to a fall in revenue. There are constraints associated with every resource and these software tools can analyze for optimal utilization.
- The time required to put the plan together is dramatically reduced. Long-term planning software can create the plan in hours, even using complex linear programming and mathematical algorithms.

Like manufacturing planning, long-term planning should also focus on resource capacity plans. The term capacity must not be restricted to machines. Capacity plans should focus on all functional areas: engineering, marketing, manufacturing, quality, logistics and distribution, finance, human resources, and information technology. Each department can highlight their strengths and weaknesses, performance metrics, and improvement plans.

As the document is prepared by members throughout the organization, participants will realize that the long-term plan is a living document. It will no longer be viewed as busy work to be completed and ignored each quarter. Everyone—individuals and groups—has an active role. Some of the goals in the plan can be reflected in individual performance objectives, thus creating cohesiveness in the organization.

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